DOCTOR OF PHILOSOPHY

Stakeholder perspectives on corporate governance and accountability for development in Zambia

Shikaputo, Mutambalale Chanda Grevas

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Mutambalale Chanda Grevas Shikaputo

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M. Chanda G. Shikaputo

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School of Business
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Dedication

I dedicate this thesis to my late parents, Paulino and Blandina. I have no doubt in my mind that without their support, their inspiration and their value for education, I could not have made it this far.

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Acronyms

ACC	Anti-Corruption Commission
ADB	Africa Development Bank
AfDF	African Development Fund
ANC	African National Congress
APRM	Africa's Peer Review Mechanism
AU	African Union
BOZ	Bank of Zambia
BSAC	British South Africa Company
CACG	Commonwealth Association for Corporate Governance
CIPE	Centre for International Private Enterprise
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Corruption Perception Index
CSPR	Civil Society for Poverty Reduction
CTPD	Centre for Trade Policy and Development
ECA – SA	Economic Commission for Africa - Southern Africa
ECA	Economic Commission for Africa
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FDI	Foreign Direct Investment
FINDECO	Finance and Development Corporation
FNDP	Fifth National Development Plan
FNDP	First National Development Plan
FOEI	Friends of the Earth International
FSDP	Financial Sector Development Plan
GCAR	Global Compact for Africa Recovery
GCGF	Global Corporate Governance Forum
HIPC	Heavily Indebted Poor Countries
IBP	International Business Publications
IFC	International Finance Corporation
ILACG	Latin American Institute of Corporate Governance
IMF	International Monetary Fund
INDECO	Industrial Development Corporation

IoDSA	Institute of Directors of South Africa
IODZ	Institute of Director of Zambia
KCM	Konkola Copper Mines
LACGN	Latin American Corporate Governance Network
LAZ	Law Association of Zambia
LuSE	Lusaka Stock Exchange
MAP	Millennium Partnership for African Recovery
MBBZ	Meridien BIAO Bank Zambia
MCM	Mopani Copper Mine
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MINDECO	Mining Development Corporation
MMD	Movement for Multiparty Democracy
NACP	National Anti-Corruption Policy
NADC	Norwegian Agency for Development Corporation
NAI	New African Initiative
NCCM	Nchanga Consolidated Copper Mines
NCDP	National Commission for Development Planning
NEPAD	New Partnership for African Development
NERP	New Economic Recovery Programme
NGO	Non-Governmental Organisation
NRANC	Northern Rhodesia African National Congress
OAG	Office of the Auditor General
ODA	Overseas Development Aid
OECD	Organisation for Economic Cooperation and Development
PAC	Public Accounts Committee
PACFCG	Pan-African Consultative Forum on Corporate Governance
PEMFA	Public Expenditure Management and Financial Accountability
PWYP	Publish What You Pay
RCM	Roan Consolidated Mines
RST	Rhodesia Selection Trust
SAP	Structural Adjustment Programmes
SEC	Securities and Exchange Commission
SMEs	Small and Medium Enterprises
SNDP	Sixth National Development Plan

SOEs	State-owned enterprises
TI	Transparency International
TIZ	Transparency International Zambia
TNDP	Third National Development Plan
UN	United Nations
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIP	United National Independence Party
UPP	United Progressive Party
USA	United States of America
USAID	U.S Agency for International Aid
ZANACO	Zambia National Commercial Bank
ZANC	Zambia African National Congress
ZCCM	Zambia Consolidated Copper Mines
ZCCM-IH	Consolidated Copper Mines Investment Holdings
ZDA	Zambia Development Agency
ZEC	Zambia Electoral Commission
ZICA	Zambia Institute of Chartered Accountants
ZIMCO	Zambia Industrial and Mining Corporation
ZITF	Zambia International Trade Fair
ZPA	Zambia Privatisation Agency
ZRA	Zambia Revenue Authority

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It would not have been possible to attain this level of education without the help of a multitude of individuals. First and foremost, I would like to thank my supervisors Dr Bruce Burton and Dr Theresa Dunne who contributed immensely to this thesis. I would also like to thank them for their chaperoning, direction, and provision of invaluable and constructive advice during the entire period of this PhD study. They generously gave their time, unreservedly provided ideas and expertise and guidance that shaped this thesis. Working under their supervision has been a great privilege. Secondly, I thank my sponsors, the Commonwealth Scholarship Commission for funding this research project and offering me this rare prestigious opportunity to study in the United Kingdom.

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I am forever grateful to my family, my wife Tamara and my children Chomba, Chanda and Chipampe, for their love, support, understanding and sacrifice.

Finally, I would like to thank my brothers and sisters for their encouragement and always being there for me. From the bottom of my heart, to all of you, I truly thank you.

Declaration

I hereby declare that I am the author of this thesis; that the work of which this thesis is a record has been done by myself; and that it has not previously been accepted for a higher degree.

Signed: ……………………………………… Date: …………………………………….

M. Chanda G. Shikaputo

Certificate

We certify that Mutambalale Chanda Grevas Shikaputo has worked the equivalent of nine terms of this research, and that the conditions of the relevant ordinance and regulations have been fulfilled.

Signed: ……………………………………… Date: …………………………………….

Dr Bruce Burton

Signed: ……………………………………… Date: …………………………………….

Dr Theresa Dunne

Abstract

Stakeholder Perspectives on Corporate Governance and Accountability for Development in Zambia

Poor corporate governance has been cited as one of the impediments contributing to poor economic performance in most African countries. The New Partnership for African Development (NEPAD) has recognised corporate governance as one of the fundamental factors for Africa's economic emancipation. Since independence in 1964, Zambia has undergone a number of political and economic reforms in search of economic prosperity, but meaningful development has continued to be elusive. This thesis focuses on corporate governance's implications for Zambia's development from a stakeholder perspective. The last two decades have witnessed a worldwide renaissance in corporate governance and recognition of its importance for economic development has stimulated research that examines the inter-play between the two concepts not only in the developed world, but in developing nations as well. Building on NEPADs assertion, the current study sheds light on corporate governance's potentiality to enhance Zambia's economic performance by examining in detail the views of a wide and diverse range of stakeholders.

CHAPTER ONE

INTRODUCTION

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INTRODUCTION

1.1 Introduction

For many years, the major preoccupation of the world's least developed countries has been the attainment of significant and sustainable economic growth. The world's richest nations have come to the aid of these countries by providing resources in the form of aid, loans and grants. However, despite such help substantive levels of development have continued to elude the nations concerned. In this context, Boutros-Ghali[1] (1992), in his report to the General Assembly of the United Nations, articulated that:

> "Without development, long-term enjoyment of human rights and democracy will prove illusory, for [G]ood Governance, democracy, participation, an independent judiciary, the rule of law and civil peace are conditions necessary for economic progress" (p. 105-115).

Since independence in 1964, Zambia has undergone a number of political and economic reforms aimed at energising its economy, but meaningful progression has failed to materialise. A number of reasons, both internal and external, have been advanced for the failure, including the country's traumatic pre-independence colonial history, the economic shocks of the 1970s[2], extractive imperialism and economic policies that left the country heavily indebted (and largely dependent) on external hand-outs for survival. Scholarly literature indicates that legitimate governance underpins strong economic performance (Ndulu and O'Connell, 1999; Akokpari, 2004; Visser et al., 2006; Hansungule, 2008) and in its absence it is fallacious to expect significant economic development (Amoako, 2003; NEPAD, 2007). The post-independence era witnessed pre-determinate political and economic reforms in Zambia that were intended to repudiate colonial institutional

[1]United Nations Secretary General (1992).

[2]During the 1970s, Africa went through economic and social dilemmas resulting in deteriorating national income, budget deficits, chronic balance-of-payments and heavy indebtedness.

inheritance in favour of the philosophy of indigenisation (Zambianisation) that eliminated the capital accumulation and growth interests supported by the former colonial administrators, giving birth to state-led inward-looking industrialisation policies that kept serious investors at bay. This radical transformation resulted in the state taking charge of over 80% of the country's economic activity (Turok, 1980; Mwanawina and Mulungushi, 2002). It was at this stage that 'good' governance became illusive in most African countries (Ndulu and O'Connell, 1999; Akokpari, 2004) with Zambia being no exception (Turok, 1980).

1.2 The Concept of 'Good' Governance

Although efforts to explain development failures in the world's poorest countries have provided useful insights into the complex nature of the development process - especially given the diverse nature of the nations concerned - there has been a realisation that several endogenous factors have been given inadequate attention in the economic advancement paradigm, one of the most important of these being governance. According to the World Bank (1992), 'good governance' is "synonymous with robust development management, efficiency resource management and at the core of this is a system of accountability" (p. 1). It is therefore evident that the World Bank believes meaningful development to require the taking on board of issues of accountability and transparency, supported by a sound legal framework. This view is echoed by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the United Nations Development Programme (UNDP), the International Monetary Fund (IMF) and the Africa Development Bank (ADB). While development should put more emphasis on achieving production capacities, rule of law, civil and political rights, high quality government policies and agencies, effective mechanisms of conflict management and private and public sector effectiveness, it is widely accepted that achievement of these objectives requires an established and robust system of governance

(NEPAD, 2007). Similarly, the Economic Commission for Africa (2005) contends that "without progress in governance, all other reforms will have limited impact" (p.133). The problem of governance has been identified as one of the main contributors to economic policy failures in Africa (Diedhiou, 2006). In other words, governance remains a central factor in the quest for Zambia's economic development. Indeed, the World Bank (1989)[3] holds crises in governance directly responsible for Africa's policy failure and economic stagnation[4], and has since identified the concept as a focus for its attempts to resolve Africa's economic deterioration.

Africa remains the continent with the highest population growth rate, largest population of refugees, highest poverty levels and the lowest per capita incomes on earth (Ginther et al., 1995; Visser et al., 2006). Visser et al. (2006) note that almost half of the 81 poorest countries in the world are located in Africa while Katito and Aggad (2009) report that almost half of Sub-Saharan Africa's population lives below the World Bank's poverty line of $1.25 per day; 34 of the 54 nations are classified as Heavily Indebted Poor Countries (HIPC). Using real GDP per capita data for 21 Sub-Saharan African nations over a 34 year period, Ndulu and O'Connell (1999) find long-term growth to be very slow relative to developing countries outside Africa, although Africa has continued to under-perform against almost all high-priority indicators of development (Katito and Aggad, 2009). Defective governance, a lack of delivery on development goals and the failure to positively change the lives of ordinary citizens has left many Africans bewildered and disappointed (Obadina, 2000). In this context, Hansungule (2008) argues that:

> "One of Africa's greatest problems since independence is simply governance… [The] governance deficit is 'independent' Africa's perennial headache and therefore it is good that there finally is this recognition that Africa owes Africa a large debt to put things right as far as governance is concerned" (p. 2).

[3]The World Bank has been a leading agency and partner for development, particularly in Africa.

[4]The World Bank (1989) argues that: "Underlying the litany of Africa's development problems is a crisis of governance" (p. 60).

In a quest for solutions to Africa's entrenched development problems, the continent has witnessed a number of economic programmes, but most of these have left little or no significant development mark on the continent. These programmes include: the Structural Adjustment Programmes (SAPs); the Millennium Partnership for African Recovery (MAP); the OMEGA Plan; the Global Compact for Africa Recovery (GCAR); and the New African Initiative (NAI) which was in October 2001 renamed the New Partnership for African Development (NEPAD) (Akokpari, 2004). However, Collier (1991) argues that most of these schemes were externally engineered and funded, and failed to achieve the intended objectives because African governments claimed that they did not 'own' them. In this sense, the NEPAD, a development programme under the patronage of the African Union (AU), is viewed by many Africans as a home grown initiative and therefore has greater potential.

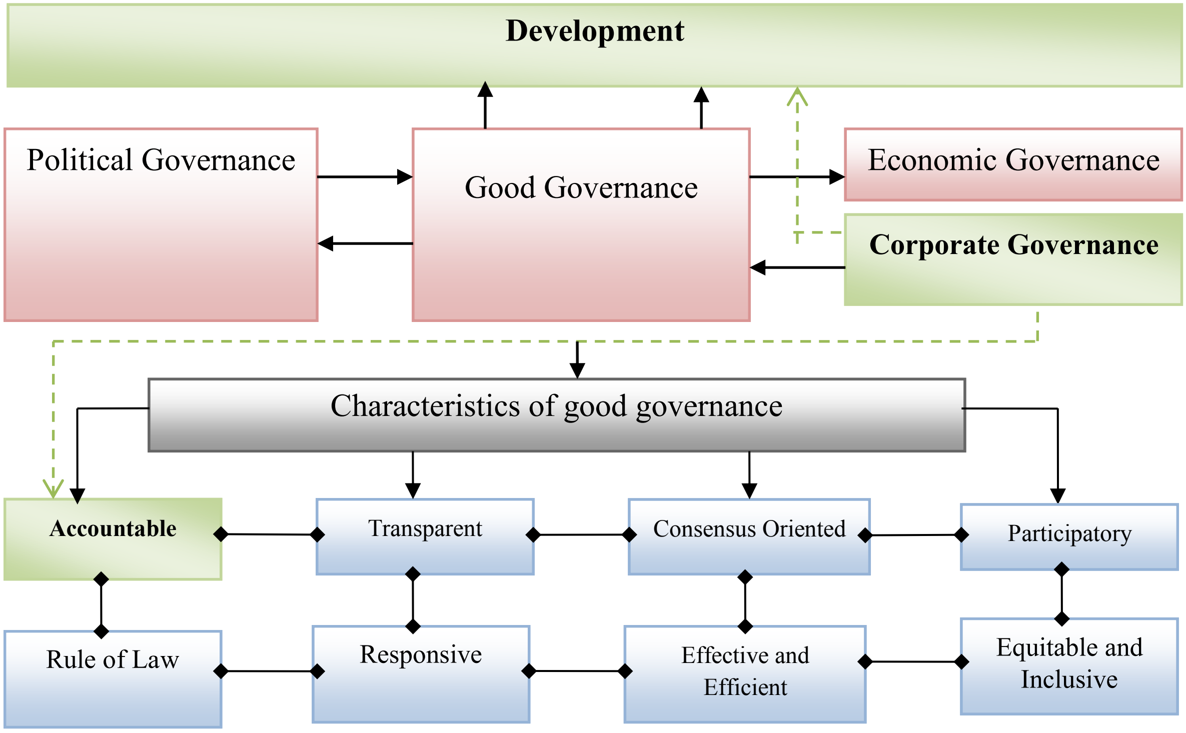
It should be noted that governance and development are both controversial concepts in terms of both definitions and working frameworks. However, according to the NEPAD framework, good governance involves:

> "… the creation of the conducive socio-economic, legal, political and institutional environments to foster the state's material strength; to free people from the evils of abject poverty, preventable diseases, ignorance, squalor and idleness; to provide the citizenry with the voice to choose those who rule over them, to hold those in power accountable when they do not work for the greater good, to demand transparent structures and to fight down socially regressive policies, and to treat every citizen equal without regard to gender, race, ethnicity, religion, and creed" (NEPAD, 2007 p. 6).

NEPAD unbundles governance into three constituents: political governance; economic governance; and corporate governance. As presented in Figure 1.1 below, it is clear that the inter-play between the three is important in the context of any attempt to achieve sustainable development. Figure 1.1 also indicates some of the key characteristics on which good governance rests. According to the ESCAP good governance characteristics include *inter-*

alia: accountability; transparency; consensus; participation; rule of law; responsiveness; effectiveness; efficiency; equity; and inclusivity.

Figure 1.1 NEPAD's Conceptualisation of Good Governance



Note: This figure shows how NEPAD unbundles governance into three dimensions: political, economic and corporate. Source: The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

Based on this conceptualisation, the current study focuses on Zambian stakeholders' perceptions of corporate governance's implications for the country's development through the accountability lens as diagrammatically marked by the dotted line in Figure 1.1 above. The establishment of NEPAD marked the first step toward the recognition of the importance of good governance in general - and corporate governance in particular - for Africa's development (Armstrong, 2003; Amoako, 2003; Akokpari, 2004; Rossouw, 2005). Here, Amoako (2003) states that:

> "In Africa, where there has been an historical record of bad governance, improving the governance environment has been given a central place in the New Partnership for Africa's Development (NEPAD)" (p. 2).

According to the IMF (2007), the term 'governance' covers a wide spectrum ranging from government to non-government delivery systems. This dissertation, however, focuses on a single thematic area of governance, namely corporate governance, having contextualised it within the broad governance notion. The focal point for the current study is Zambian people's perceptions of corporate governance's implications for national development. The underlying thesis is that the absence of (or weak) corporate governance has been a significant obstacle to Zambia's development.

1.3 Corporate Governance

There has been a worldwide renaissance in the study and recognition of corporate governance (Mallin, 2009; Solomon, 2010) both in theoretical terms and regarding its practical importance for corporate and national economic health (Berglof and Thadden, 1999; Cadbury, 2002; ECA, 2002; Oman, 2003; Akokpari, 2004; OECD, 2004a; Charkham and Ploix, 2005; Wu, 2005; Vaughn and Ryan, 2006; NEPAD, 2007; Tsamenyi and Uddin, 2008; Arun and Turner, 2009). In particular, corporate governance-driven scandals and failures around the world have demonstrated how "defective" governance schemes can affect the lives of millions of people (Oman, 2003; Kiichiro, 2007). Although Zambia has its own experience of corporate governance shortcomings, particularly in the banking sector, failure to document and properly investigate such scandals makes it difficult for most Zambians to comprehend the severity of the consequences. The need for effective corporate governance has become crucial as globalisation and the competition for external investment have opened up Africa's economies for investment (Siddiqui, 2010). The quality of corporate governance is not only important for individual companies and their boards, but for the entire economy of the country (Argüden, 2010). In this regard, the Global Corporate Governance Forum (GCGF) notes that:

> "Corporate Governance has become an issue of worldwide importance. The Corporation has a vital role to play in promoting economic development and social progress. It is the engine of growth internationally, and increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both private and public interest, and governance has, thereby, come to the head of the international agenda."

Although the corporate governance debate in developed nations has been couched in the terminology of the principal-agent model, there is conclusive evidence to suggest that the ultimate objective for such reforms is macro-economic attainment (see e.g. the Cadbury Report, 1992; OECD, 1999, (revised 2004); King Report, 1994 (revised 2002); GCGF, 2003). Indeed, a strong relationship between corporate governance and economic performance has been reported in the literature (Berglof and Thadden, 1999; OECD, 2004a; Solomon, 2010). However, despite the abundant literature noting the importance of corporate governance in strengthening economic outcomes (Shleifer and Vishny, 1997; Oman, 2003), in Zambia very little policy reform has been initiated in line with these pronouncements. Serious corporate governance awareness came to prominence with the establishment of the Institute of Directors of Zambia (IODZ) in 2000, augmented by the introduction of a corporate governance code by the Lusaka Stock Exchange (LuSE) in 2005 and the Small and Medium Enterprises (SMEs) code in 2009. Establishment of corporate governance codes to supplement corporate law has emerged as the common methodology for corporate governance awareness (Adekoya, 2011). Nonetheless, recent trends indicate that there has been a growing interest in corporate governance, especially with the emergence of economic reforms that saw the re-birth of the free market economy and the abandonment of the socialist policies that bestowed the state with the power to control 80% of the economy through direct enterprise control. However, numerous challenges continue to impinge on Zambia's corporate governance reforms including: a lack of appropriate legislation; weak institutional and regulatory frameworks; inadequate enforcement; and rampant corruption. For example, prior studies indicate that the strength of a country's corporate governance framework is dependent on the effectiveness of the institutions, both legal and regulatory, coupled with robust public governance systems (Roe, 2005; Dabor and Adeyemi, 2009). While the debate outlined in this section indicates that there is no universally accepted definition of corporate governance, for the purposes of this study corporate governance is defined as:

> "…the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity" (Solomon, 2010 p. 6).

This definition goes beyond corporate boundaries to include corporate social responsibility, broadened accountability and stakeholder inclusivity. This pervasiveness is intended to align the study with the complex cultural, political and economic factors that characterise most African countries.

1.4 Research Focus

The fact that poor corporate governance is now cited as one of the most important contributors to poor economic performance in developing nations couples with the NEPAD's assertion that corporate governance is one of the necessary conditions for Africa's economic emancipation. Given this context, the present study focuses on examining Zambian stakeholders' perceptions of the implications of corporate governance for the nation's economic performance. The study's emphasis is on the capture of perceptions from a diverse stakeholder base in Zambia, but it must be acknowledged that perception-based data are open to interpretation. Nonetheless, stakeholder views are likely to provide valuable insights about peoples' understanding of corporate governance and its implications for Zambia's economic performance. In addition, specific interest is directed towards the notion that firms are the generators of economic wealth; the way in which corporations are directed and controlled has emerged as a major policy concern for many developing countries (Wu,

2005) but there is a dearth of prior studies of the issue, either specific to Zambia or Africa in general.

As Zambia is a developing nation, examples will be drawn wherever appropriate from emerging economies in other parts of the world. However, Zambia has been chosen as the main focus of this study on the grounds that, despite inheriting a healthy economy by developing nation standards at independence in 1964, the country has failed to achieve meaningful development in the decades since. The Norwegian Agency for Development Corporation (NADC), (2002) asserts that Zambia maintained a:

> "fairly liberal economic policy in the years immediately after independence. At Independence, Zambia was a middle-income country, among the richest in Africa and with a per capita GDP at the level of South Korea" (p. 5).

However, in 1985, the World Bank re-classified Zambia from a 'low-middle' income to a 'low' income country while in 1990, the United Nations formally labelled Zambia as a 'least developed country' (Saasa and Carlsson, 2002). Although other factors, such as the decline in copper prices on which the country's economy is anchored and the economic shocks of the 1970s bear some responsibility, poor governance is believed to have played a major role in hampering Zambia's performance in most internationally-agreed metrics for measuring wealth and economic performance (Bates and Collier, 1995; Saasa and Carlsson, 2002).

The focus of the present thesis differentiates it from most other governance-related studies in Africa, in the sense that its scope is individual-country specific[5]. Additionally, while abundant literature has blamed political instabilities for the governance crisis and consequential slowdown in economic progressions across the continent (e.g. Ginther et al., 1995; Hossain, 1995; Roe, 2003; Visser et al., 2006; Cooper, 2007; Wanyama et al., 2009; Armah and Amoah, 2010), Zambia has remained relatively peaceful and politically stable since independence, spared from the worst ravages of the conflicts that engulfed the

[5]With South Africa as an exception

continent. Zambia's economic stagnation is therefore worthy of detailed study, where the role of factors un-related to civil upheaval requires illuminating.

1.5 Research Objectives

Corporate governance has emerged as one of the key determinants of efficient economic performance (Berglof and Thadden, 1999; ECA, 2002; Oman, 2003; Akokpari, 2004; OECD, 2004a; Wu, 2005; Vaughn and Ryan, 2006; NEPAD, 2007; Tsamenyi and Uddin, 2008; Arun and Turner, 2009). Numerous researchers have investigated corporate governance in developed nations and several have examined corporate governance in Africa as a whole. However, individual African countries have not enjoyed such levels of investigation. Whilst developing economies are beginning to receive attention in this area (Brennan and Solomon, 2008), there has been no detailed research undertaken in a Zambian context to investigate the role of corporate governance in the country's economic non-progression. Even though research has begun emerging in the African context, the typical (although not exclusively) continent-wide approach ignores individual countries' contextual specificities in terms of political, economic, cultural and historical factors. Because developing nations like Zambia are part of the global economy, Reed (2002) calls for investigations of corporate governance in such countries to fully incorporate the interaction between the factors influencing corporate governance in developed nations and those giving rise to corporate governance in (the very different political and economic environment of) developing nations (Rabelo and Vasconncelos, 2002). In this context, the present study is important because it focuses exclusively on Zambia.

The central objective of the current thesis is to analyse corporate governance in Zambia by investigating key stakeholders' perceptions about its implications for the country's economic performance. In doing so, the study examines and evaluates the extant levels of corporate governance in Zambia as a basis for economic development. Following NEPAD's declaration that corporate governance is one of the prerequisites for Africa's economic enfranchisement, the objective is to detect the legitimacy of the notion based on the interpretation of Zambian stakeholders' perceptions, properly contextualised in domestic circumstances. Taking into account the de facto assumptions that governance rests on accountability and transparency and that any reforms aimed at enhancing economic performance must embrace these principles (World Bank, 1989), the overarching objective of this thesis is to interpret stakeholder perceptions regarding the interplay between corporate governance and the country's economic performance through the accountability lens. In the context of the on-going debate, the study attempts to identify the drivers, benefits and challenges faced by Zambia in its pursuit of corporate governance reform. Using Zambia as a case study, the thesis intends to provide a detailed account of the country's corporate governance situation, stakeholders' perceptions of the latter's implications for Zambia's development and, using the accountability lens, examine whether or not the governance and development paradigm can seek theoretical refuge in the country's accountability shortcomings. From the research background, focus, motivation and objectives, the following research questions have been derived:

1. What is the perceived current state of corporate governance in modern-day Zambia?
2. To what extent do the people of Zambia understand effective corporate governance as a necessary condition for the country's economic development?
3. What role do Zambians see for accountability in aiding attempts to better governance practices and economic performance?

1.6 Motivation and Significance of the Current Research

Corporate governance has become a topic of enormous significance the world over (Cadbury, 2002; Mallin, 2009; Solomon, 2010). Although the economic importance of effective corporate governance has started gaining acceptance in many developing nations (Solomon, 2010), the dearth of related research in a nation such as Zambia makes it problematic for the population to appreciate its importance. The knowledge gap resulting from the lack of research into the (evolving) nature of corporate governance, coupled with the increasing demand for corporate governance and accountability in Zambia, is the motivation for conducting the current study. The widely-made claim that corporate governance matters most for developing countries (Babic, 2003; Oman, 2003; McGee, 2008; Siddiqui, 2010), suggests that conducting an investigation of this kind in a developing country such as Zambia provides both opportunities and challenges for research in the area. In this context, the study makes a significant contribution to the existing literature by tackling head-on some key issues surrounding reforms, implementation and observance of corporate governance practices.

In the light of this discussion, it is clear that a case study of Zambia should provide useful lessons regarding both constraints on and prospects for effective corporate governance from a developmental perspective. The study also provides insights regarding the association between corporate governance and economic performance, thereby furnishing the nation's policymakers with information that will usefully inform future political and economic reforms. In addition, answers are sought regarding the question of the extent to which NEPAD's governance notion holds in the Zambian context, thereby challenging regulators to ensure that improving corporate governance and greater accountability are given priority in the country's search for economic recovery. In this regard, the premise that corporate governance's implications for Zambia's development deserve empirical research appears well founded.

1.7 Structure of the Thesis

The thesis is comprised of ten chapters as outlined below. Following this introduction, Chapter Two offers a brief background about Zambia's geographical location, an historical perspective, its political and economic context as well as extant education, legal and regulatory environments. The aim of the chapter is to provide insights into the country's specific governance credentials as most research in this area concentrates on Africa as a homogenous unit disregarding individual country specific issues. Chapter Three discusses the general frameworks and theories that underpin corporate governance and the literature on African in so far as it relates to the subject of the study. This chapter is used as a lens for prioritising the literature on corporate governance in Africa on the basis of its proportionate relevance to Zambia's circumstances. Chapter Four then highlights and discusses the key prior studies as well as setting out Zambia's three economic governance phases in the context of the literature on corporate governance drivers and challenges, including institutional independence.

Chapter Five details the theoretical framework adopted for the current study. The corporate governance and economic performance paradigm have been conceptualised around an accountability base, which is used in turn to interpret the findings. In addition, the traditional cultural context, which takes account of Africa's cross-cultural dynamics and their implications for corporate governance and conventional accountability, is also briefly discussed. Chapter six establishes and justifies the methodological assumptions supporting the interpretive research paradigm adopted for the current study. The chapter also outlines the data collection methods in terms of their appropriateness for the specific research to be conducted; the choice of semi-structured interviews and a questionnaire survey as the primary methods are described and explained. Chapter Seven begins the presentation of the empirical results by outlining and analysing the findings from interviews that focus on the corporate governance landscape in Zambia as a basis for economic performance. Economic performance is itself the focus of Chapter Eight, where investigation of perceptions about corporate governance's implications for Zambia's development is presented. The role of accountability is also discussed in the chapter, in the context of corporate governance and development with special reference to the notion that 'proper run firms are the generators of the country's wealth'. The central concerns in Chapters Seven and Eight are carried over to Chapter Nine, where findings from the larger-sample questionnaire survey are described. Bringing together the themes in the three empirical chapters, Chapter Ten concludes the thesis by summarising the research findings, offering some policy recommendations, highlighting the contributions made to knowledge, exposing the limitations that have emerged in the research process, providing suggestions for future research and presenting closing remarks.

CHAPTER TWO

NATIONAL BACKGROUND: ZAMBIA

CHAPTER TWO

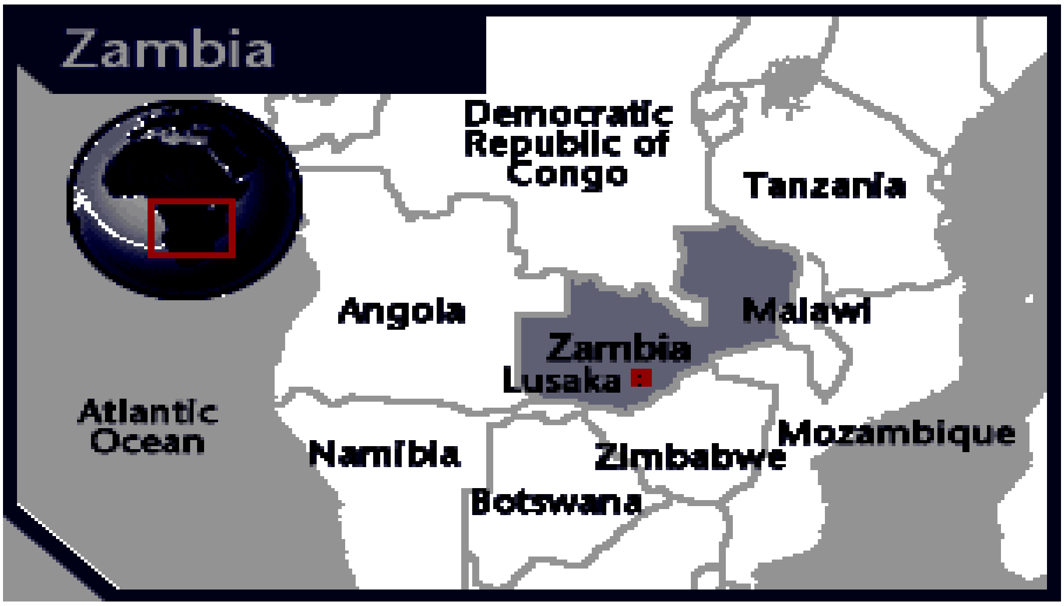
NATIONAL BACKGROUND: ZAMBIA

2.1 Introduction

Tordoff and Molteno (1974) suggest that “It is trite, but true, that every nation is a product of its past” (p. 1). Application of Tordoff and Molteno’s suggestion to the present study implies that the current Zambian environment cannot be fully understood without an appreciation of its historical background. This approach is particularly important in Africa, where a background of trauma and instability - both absolute and relative to other continents - exists (Visser et al., 2006). In this regard, the authors argue that understanding these experiences can help in understanding the de facto governance structures and their contextual dimensions in individual countries and the continent as a whole. This chapter therefore provides a discussion of Zambia’s geographical location, its history (both before and after independence) as well as its political, economic, education, legal and regulatory environments. The chapter also provides a brief overview of the nation’s corporate governance system that is expanded in Chapter Four. This information is intended to provide a codified, coherent picture of Zambia that underpins and contextualises the empirical research presented in the thesis. The chapter also outlines the forces and events that have shaped the varied manifestations of developmental factors, structures and control systems seen in Zambia today. These structures and control systems have had a profound effect on the quality of the country’s extant governance, legal and regulatory frameworks and may help to explain the situation obtaining in Zambia today. A large and burgeoning literature suggests that ‘good’ corporate governance depends to a large extent on an effective political, legal and well-functioning regulatory environment (e.g. Sheng et al., 2004; Cooper, 2007; Rezaee, 2007; McGee, 2008; Wanyama et al., 2009).

Rosenbaum (1999) posits that history has a tangible effect in what is currently obtaining in a number of countries, giving an example of the USA's historical concern about public accountability; the author observes that this is reflected at virtually all levels of government through a variety of institutional structures designed to encourage openness, citizen participation and public accountability. This contextualising has provided valuable insights into how the United States handles its governance issues politically and economically, and why accountability and openness are important concepts for most Americans.

Figure 2.1 Map of Zambia and the neighbouring Countries



Source: United Kingdom, Foreign and Commonwealth Office website (2009).

Zambia's geographical location is a key influence on the nation's political and economic potential. As can be seen from Figure 2.1 above, Zambia is a landlocked country in South - Central Africa surrounded by eight countries, namely Angola to the west; the Democratic Republic of Congo to the north; Tanzania to the north east; Malawi to the east; and Mozambique, Zimbabwe, Botswana and Namibia to the south. The country has a tropical climate and consists mostly of high plateau that rises to 8,503 feet (2,592m) in the Mafinga hills, with these and other mountainous regions dissected by river valleys (Holmes and

Wong, 2008). Zambia has a total area of about 752,614 sq km, slightly smaller than the UK and France combined (McIntyre, 2008) and slightly larger than Texas (Williams, 2003) making it the 39th largest country in the world. The total consists of land of 740,724 sq km and water of 11,890 sq km (IBP, 2008). The country is sparsely populated, with around 73 ethnic groups occupying the nation's nine provinces. The population is concentrated mainly around Lusaka in the south and the Copperbelt in northern Zambia; although Lusaka is the largest urban centre, Copperbelt towns together constitute the largest concentration of urban population (Williams, 2003). According to the latter, Zambia's population as at the census date of October 2000 was 10,285,631, but by 2005 it was estimated to be about 11.7 million (IBP, 2008).

Lusaka is Zambia's capital and largest city, located in the southeast with a population of about 2 million people (Malomo and Wint, 2003). The northern part of Lusaka includes the "Copperbelt". The Copperbelt province is an area in Zambia that is rich in minerals, especially cobalt and copper deposits; these resources are the backbone of Zambia's economy through the copper revenues they provide (Mulenga, 2003). The zone that stretches to the Democratic Republic of Congo is believed to contain one of the world's largest accumulations of copper and cobalt deposits with over 3 billion tons of high grade copper sulphide ore thought to exist (McGowan et al., 2005). Zambia's climate is characterised by three seasons: a cool dry season between April and August; a hot dry season from August to November; and a warm wet season between November and April (Williams, 2003)[6].

[6]Zambian temperatures average 30° C to 35° C, except in June and July when the mean falls to between 5° C and 10° C (Williams, 2003).

2.2 The History and People of Zambia

2.2.1 Migratory Origins

No particular group of people in Zambia can claim to be indigenous, as all the extant tribes originally migrated from outside the perimeters of the modern nation. However, Zambia's history can be traced to the original small Bushmen who occupied the land several thousand years ago (Carwardine, 1988). These indigenous hunter-gatherer occupants, who lived in caves and rock shelters, were displaced or absorbed by more advanced migrating tribes, and in the fourteenth century people who made and used iron, kept livestock, grew crops and lived in man-made houses began to occupy Zambia from the north (Holmes and Wong, 2008). The major waves of Bantu speaking immigrants - who brought with them advanced technology - began arriving in the fifteenth century, with the greatest influx occurring between the late seventeenth and early nineteenth centuries (Taylor, 2006)[7]. As Holmes and Wong (2008) note: "The Bantu immigrants were mining and smelting iron and copper, baked clay and beakers 1,500 years ago and making weapons …with the metals" (p. 18) and, together with other immigrants, the Bantu are what gave rise to the ancestors of present day Zambians. The new immigrants immediately established a number of kingdoms, among them Kazembe-Lunda in the north (settled around the lower Luapula River) and Bemba in the north-east. While these immigrants came from the Luba and Lunda tribes of the southern Democratic Republic of Congo and Angola to the north, the Ngoni and Chewa - fleeing Shaka and the Boers from the south - established kingdoms in the east, with the Lozi people settling in the west around the upper Zambezi River. Meanwhile the Tonga - a Bantu ethnic group - settled in the southern part of Zambia that neighbours Zimbabwe (Roberts, 1976). Despite the variety in geographical roots, Roberts (1976) contends that the seventy plus tribes that make up modern Zambia co-exist relatively well and that most Zambians share

[7]See also Carwardine (1988).

important elements of social and cultural traditions that may reflect a common inheritance from a long established matrilineal tradition.

2.2.2 David Livingstone and the British

Apart from the Portuguese incursions, Zambia lay untouched by European explorers until a visit by the Scottish Missionary David Livingstone in the 1850s (Taylor, 2006). The visit was widely reported in London and the British became interested in dominating the area; the first hand information provided by Livingstone's first visit provided the impetus as there was very little known in Europe about the country's potential up to that point. Although Britain saw this as an opportunity to extend their power and dominion in Africa, Carwardine (1988) claims that Livingstone's intention was to help put an end to slavery which he referred to at the time as the "great open sore of the world"

As a landlocked country, far from the coasts of both the Indian and the Atlantic oceans respectively, it was perhaps unsurprising that Zambia received comparatively scant European attention in the 'scramble for Africa'. According to Taylor (2006) the phrase "scramble for Africa" reflected not only a geographical division but a rush by European powers to divide Africa's assets as quickly as possible. Visser et al. (2006) argue that some of Africa's unique experiences include the fact that even its boundaries were determined by the European colonial powers, with little regard for geography, local communities or resource distribution.

Many European explorers prophesised religious interests, which they combined with commercial and political aims to underpin their imperialistic approach. For example, when Livingstone returned to the UK in 1856, he announced in Cambridge that "I go back to Africa to try to make a path for commerce and Christianity" (Cox, 2008 p.148; Rotberg 1972, p.4). In this regard, missionaries claimed the commercial dimension was meant to sustain their missions rather represent an end in themselves. The British consolidated their commercial and political interests in Southern Africa indirectly through the British South Africa Company (BSAC) which, by 1891, had established full territorial control of what came to be called Zambia (Taylor, 2006). The mineral rights were secured for the British via the obtainment of concessions through local chiefs in exchange for protection from intruders. In 1888, Northern and Southern Rhodesia (modern day Zambia and Zimbabwe) were proclaimed a 'British sphere of influence' and in the 1890s Cecil Rhodes' BSAC established imperial rule north of the Zambezi, launching a wave of mineral prospecting and exploitation of other natural resources such as timber, ivory and animal skins in the territory it called North-Western Rhodesia (Taylor, 2006). In 1953 Northern Rhodesia and Southern Rhodesia were joined with Nyasaland (Malawi) to form the federation of Rhodesia and Nyasaland under the control of the British. English was used as the official language for the colonies, including in Zambia, to bring together more than 72 ethnic tribes and languages. As a result, English became dominant in Zambia to the extent that even today, almost all schools introduce English at the earliest stages of education[8].

2.3 The Political Environment

2.3.1 Before Independence

Wanyama et al. (2009) contend that a sound political environment is vital for good corporate governance. Similarly, Ginther et al. (1995) argue that inherent in the concept of sustainable development is the need for a political system that provides for a robust system of governance. A 'good' political environment in this context is one which provides a conducive environment for governance, both legal and regulatory. However, in most African countries political instability means that such foundations are likely to be lacking (Wanyama

[8]English is also the official language of business.

et al., 2009). In Zambia, the modern political system began to emerge around the 1890s, when the BSAC signed a series of treaties with local leaders culminating, in 1911, with the establishment of Northern Rhodesia (Williams and Hackland, 1988). It is believed that Rhodes' original intention was to extend British rule from Cairo to the Cape, a plan that was ultimately foiled by the Belgians and the Germans (Carwardine, 1988). During the first decade of BSAC occupation of the territory, white settlers were attracted and began to arrive in Northern Rhodesia to work in the BSAC mines, establish farms and undertake other commercial activities (Taylor, 2006). The copper mining in particular led to an influx of Europeans in Northern Rhodesia, although white settlement never reached the levels it had done in Southern Rhodesia and Nyasaland in the short-lived Federation of Rhodesia and Nyasaland (UK, FCO, 2009).

BSAC rule ended in 1923 when the administration of Northern Rhodesia was handed over to the colonial office in London and Zambia became a de facto British colony (Tordoff and Molteno, 1974). In 1953, Northern Rhodesia (Zambia), Southern Rhodesia (Zimbabwe) and Nyasaland (Malawi) collectively formed the Central African Federation (Taylor, 2006). Under this arrangement, copper revenues from Zambia were channelled to further Southern Rhodesia's development while Nyasaland contributed the human and natural resources unjustly needed to enhance the socio-economic position of the white-dominated Southern Rhodesia (Taylor, 2006). Taylor's observation regarding the Central Africa Federation is that Zimbabwe benefitted more from its establishment than did Zambia and Malawi, the two countries that were responsible for substantial economic growth in Zimbabwe. Zambia in particular lost funds that might otherwise have been invested productively in its own development (Taylor, 2006). It seems reasonable to assume that the aim of the British in bringing together the three countries was for Zambia and Malawi to provide resources for sustainable development in the relatively white-dominated Zimbabwe.

The break-up of the federation in 1963 paved the way for the establishment of Northern Rhodesia as an independent state. By this time there were a number of nationalist movements in Southern Africa and elsewhere. Kenneth Kaunda (see below) a strong supporter of the Black Nationalist movements that had sprung-up around Africa formed, along with Harry Nkumbula, the Northern Rhodesia African National Congress (NRANC) which later became the African National Congress (ANC) (Carmody, 1992). This development represented the first real independence movement, but the two individuals ultimately separated in dispute over how to co-operate with the colonial powers; Kaunda formed the Zambia African National Congress (ZANC) in 1958 which was later banned and Kaunda imprisoned (Tordoff and Molteno, 1974). In 1960 Kaunda re-emerged under the banner of a new party - the United National Independence Party (UNIP) - which was instrumental in the achievement of independence for Zambia in 1964. UNIP won the pre-independence elections and Kaunda was named Prime Minister of Northern Rhodesia in January 1964 (Tordoff and Molteno, 1974; Williams and Hackland, 1988). He remained in that position until independence was formalised on 24 October 1964.

2.3.2 After Independence

Zambia's first republic reflected a multi-party participatory political system of governance. At independence Zambia faced many challenges, not least of which was the fact that the country did not have the human resources needed to run either the government or the economy; a consequence, there was a lot of initial reliance on foreign expertise (Mwenda and Muuka, 2004). The other major post-independence challenge related to commercial activities being hampered by conflicts in the region, as Zambia shared borders with countries that were still fighting for independence from white-dominated rule; external influence was therefore still felt within the new nation's boundaries (Cawthra et al., 2007). This not only affected trade, but also raised security concerns as well. Kaunda was elected the first Prime Minister of Northern Rhodesia in January 1964[9] (Lipschutz and Rasmussen, 1989) as the country then employed the British system of government; this was changed later in the year to a presidential system with Kaunda becoming the first president. Socialism[10] was the common ideology among newly-independent African countries including Zambia; many Africans believed that this philosophy focused on sharing economic resources in a traditional African way and ran counter to the western capitalistic model[11]. Under such arrangements, governments were seen to have a firm control of the country's economy and political governance with benefits in terms of equality expected to flow.

After the protests that followed the 1968 presidential elections, on 17 June 1969 a referendum regarding a change to a one-party system (with UNIP as the sole political entity) was conducted and the proposal supported; (Europa Publications, 2004) in 1972, Zambia thus became a one-party state, with all other political parties banned. Before this point, there were two other significant political parties in Zambia, namely: the African National Congress (ANC), under Nkumbula, and the United Progressive Party (UPP) led by Simon Kapwepwe, former vice-president under Kaunda (Kalley et al., 1999). However, UNIP had become more dominant and increasingly intolerant of other political parties prior to the referendum and Kaunda saw the new one-party system as the final step to total control of the nation (Ihonvbere, 1996). The first elections under the new system were held in 1973 and Kaunda was the sole candidate. Kaunda's mandate was renewed in December 1978, followed by further votes in October 1983 and on 26 October 1988. Nonetheless, in the late

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[9]Table 1 provides details of Zambia's presidential administration since independence.

[10]Kaunda allowed the creation of a personality cult, alongside development of a left-leaning nationalist-socialist ideology called 'Zambian Humanism'; its principles included: Man at the center; the dignity of Man; non-exploitation of Man by Man; equal opportunities for all; hard work and Self-reliance; working together; the extended family and loyalty; and Patriotism. Similar forms of African socialism were introduced, *inter-alia*, in Ghana by Kwame Nkrumah ("Consciencism") and Tanzania by Julius Nyerere ("Ujamaa").

[11]Although many African politicians of the 1950s and 1960s were prophetic of socialism, definitions and interpretations of this term varied considerably from country to country.

1980s, pressure started to mount on UNIP's monopoly power and this, coupled with a failed coup attempt and economic hardships following massive increases in the prices of basic foodstuffs when food subsidies were removed, resulted in food riots and protests in the major cities of the country. The domestic unrest sparked off by the price rises developed into demands for a more democratic system of government and the growing pressure eventually led to the formation, in 1990, of the "Movement for Multi-party Democracy" (MMD) (McIntyre, 2008). This movement brought together prominent Zambians who opposed the one-party state, alongside labour leaders and UNIP defectors. Kaunda finally conceded to pressure and in 1990 he signed legislation to end UNIP's monopoly on power, with a new constitution being enacted in 1991 that allowed for more than one presidential candidate.

On 31 October 1991 the first multi-party elections were held for both presidential and parliamentary positions; the MMD's candidate Frederick Chiluba won the former with over 80 % of the vote (McIntyre, 2008). In the parliamentary elections, the MMD captured 125 of the 150 elected seats with UNIP winning the rest (Europa Publications, 2004). Chiluba ruled the country from 1991 to 2001 under the new constitution[12]; his attempt to campaign for a third term met strong opposition from within his party, opposition parties, NGOs and civil society as a whole, leading to defection of some senior party members to either join the opposition or form their own political parties. The third multi-party Presidential, parliamentary and local government elections were held on 27th December 2001, which the MMD-sponsored presidential candidate Levy Mwanawasa won by a narrow margin; on this occasion the opposition parties won the majority of parliamentary seats. The fourth multi-party elections were conducted in 2006; again the MMD candidate won without achieving a

[12]The executive branch of Zambian government is filled by an elected president. Presidents serve terms of five years and are limited to two terms. The vice-president is appointed by the president.

parliamentary majority (McIntyre, 2008). However, while attending an African Union (AU) meeting in Egypt, in 2008 Mwanawasa suffered a stroke, and he died in France in August of that year. Following Mwanawasa's death, vice-president Rupiah Banda succeeded him as temporary president until the emergency election on 30th October, 2008 which Banda won by a narrow margin (40%) over opposition leader Michael Sata (38%) (ECZ, 2008). Banda could therefore complete the remainder of Mwanawasa's last 5-year presidential term running to 2011. The September 2011 elections were won by opposition leader Micheal Sata (43%) under the Patriotic Front (PF) banner (ECZ, 2011). By African and developing nations' standards generally - and particularly in comparison to many of its near neighbours - modern Zambia is a peaceful country and continues to enjoy political stability. Table 1 summarises the key political milestones.

TABLE: 1 Presidential administrations of Zambia

Year	President	Party	Method of Change	Percentage of vote
EMERGING DEMOCRACY				
1964 - 1968	Kenneth Kaunda	UNIP	Elections	
1968 - 1973	Kenneth Kaunda	UNIP	Elections	
17 June 1969 Referendum voted for change to one-party system and UNIP as a sole political party.				
ONE-PARTY SYSTEM OF GOVERNANCE				
1973 - 1978	Kenneth Kaunda	UNIP	Elections	88.8% yes vote
1978 - 1983	Kenneth Kaunda	UNIP	Elections	80.7% yes vote
1983 - 1988	Kenneth Kaunda	UNIP	Elections	95% yes vote
1988 - 1991	Kenneth Kaunda	UNIP	Elections	95.5% yes vote
MULTI-PARTY DEMOCRACY SYSTEM OF GOVERNANCE				
1991 - 1995	Frederick Chiluba	MMD	Elections	80%
1996 - 2000	Frederick Chiluba	MMD	Elections	73%
2001 - 2005	Levy Mwanawasa	MMD	Elections	29%
2006 - 2008	Levy Mwanawasa	MMD	Elections	43%
2008 - 2011	Rupiah Banda	MMD	Elections	40%
2011 -	Micheal Sata	PF	Elections	43%

Note: This table provides details of the presidential elections in Zambia in the post-independence era.

2.4 The Economic Environment

2.4.1 Political Economy

As noted earlier, Zambia's economy is largely based on copper and cobalt mining and, as a result, it had one of the most buoyant economies in Africa at independence (Ihonvbere, 1996). The continued increase in copper prices in the 1960s boosted the country's economy and government investment levels. In fact, the Rhodesia-Nyasaland Federation's mis-application of copper revenues has been suggested as one of the reasons why Northern Rhodesia decided to pull out of the Federation (Ihonvbere, 1996). Breaking away from the federation thus meant that all the copper revenues could now be retained in Zambia and the country enjoyed a balanced external trading account, based on the export of copper which provided over 90% of export earnings and supported over 50% of the government's budget and investment in many sectors such as health and education which were considered key to development (Ihonvbere, 1996).

As mentioned earlier, at independence Zambia inherited a weak human resource situation. In particular, the country did not have much needed trained and experienced indigenous personnel that could implement development-oriented policies[13]. Examining the impact of indigenisation on the Zambian economy, Beveridge (1974) maintains that the country lacked skilled labour at independence partly, because the colonial powers neglected training and education for the locals as a strategy to effect full control over them. At independence the country's economy was completely controlled by foreign investors, but this ownership structure was viewed as another type of colonialism and helping to motivate the change to government control in the late 1960s (Turok, 1989). However, Zambia's geographical location adversely affected its developmental programmes; in particular, the nation was

[13]Its neighbours in the north and south were in a relatively stronger position in this regard (Tordoff and Molteno, 1974).

surrounded by countries that were hostile and/or politically unstable, making trade very problematic. Transportation of goods to and from both the Indian and the Atlantic coasts in this environment became almost impossible (Beveridge, 1974).

As alluded to earlier, like other newly independent African countries, Zambia adopted a socialist-based ideology, in this case called 'Humanism'. Many newly-independent African states believed socialism would deliver and give them the power to take full control of their economies; (Ake, 1996) Kaunda and his government held a view that Humanism advocated the collective means of production and distribution of goods in a way best suited to Zambia's needs. Most newly-independent African states adopted a socialist ideology that reflected the Soviet Union's experience, which at the time was itself the role model for development in much of Eastern Europe[14]. There appear to be several reasons why the Soviet model was adopted in emergent African nations; firstly, before it collapsed, the Soviet Union boasted of a successful socialist economy and therefore the newly independent African countries saw the Soviet philosophy as a facilitator of macro-economic development[15]. Secondly, African states regarded socialism as the only real alternative to capitalism and adopting an ideology different from that of the former colonial masters was seen as an emancipatory tool. Thirdly, there was a belief that only socialist economies could attend to social welfare and that separate units of economic activity should be integrated into society on the basis of shared ownership.

2.4.2 Nationalisation and Reforms

Zambia had a large domestic capitalist system at this point but, as a demonstration of the new political and economic philosophy of nationalism, legitimised by reference to

[14]In fact in 1971 Zambia signed a number of trade agreements with the Soviet Union (Kalley et al, 1999).

[15]The Soviet Union grew at impressive rates in the 1950s and registered a respectable performance in the 1960s (Njølstad 2004, p.88). There is a general agreement that the Soviet economy began to decline in the early 1970s, a decline from which it never recovered (Clarke 1993, p.57).

Humanism, extensive nationalisations and economic reforms took place. This move was followed by the Mulungushi and Matero Reforms of 1968 and 1969 respectively that outlined a major structural shift in the Zambian economy; in particular, the government declared its intention to acquire 51% equity holdings in a number of large industrial concerns (Scott, 1978) and more than 26 key foreign-owned firms. According to Beveridge (1974), the cost of the 51% shares acquired by the government was to be paid at book value out of the firms' future earnings. These entities were to come under the control of a parastatal conglomerate named the Industrial Development Corporation (INDECO)[16] (Beveridge, 1974; Tordoff and Molteno, 1974). The Zambian government had also acquired majority holdings in the domestic operations of the two major foreign mining corporations, the Anglo American Corporation and the Rhodesia Selection Trust (RST)[17] (Tordoff, 1980), and a new parastatal body called the Mining Development Corporation (MINDECO)[18] was created. Another parastatal, called the Finance and Development Corporation (FINDECO), was set up to allow the government to gain control of banks, insurance companies and building societies. In 1970, Kaunda had announced the planned takeover of foreign banks, building societies and insurance companies (Kalley et al., 1999). However, several foreign-owned banks, including Barclays Bank, Standard Chartered Bank and Grindlays Bank successfully resisted these moves (Tordoff, 1980).

In 1971, INDECO, MINDECO, and FINDECO were brought together under an omnibus parastatal, the Zambia Industrial and Mining Corporation (ZIMCO), thus creating one of the largest companies in sub-Saharan Africa, with President Kaunda as Chairman of the Board

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[16]INDECO was the holding company comprising: under agriculture - tobacco and sugar, fertilizers, feed and grain bags, corn milling, rural hotels, rural commercial and small-scale industrial development and fisheries; under manufacturing - tires, explosives, fabric and spirits; under transport – pipeline and trucking companies and two hotels (Beveridge, 1974).

[17]These later became the Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Mines (RCM), respectively

[18]MINDECO was created to take control of all the mining companies.

(Tordoff, 1980). Muma (2008) asserts that this large public sector, structured on the philosophy of 'Humanism', was created with forward and backward linkages to cut off competition from the private sector, raising a number of corporate governance issues; for example, twelve out of the twenty-two directors of ZIMCO were members of the Central Committee of the ruling UNIP (Bates and Colliers, 1995). Through the government, Kaunda had now established de facto control of Zambia's manufacturing, mining and financial sectors; the parastatals were seen as an important arm of the party and all workers were expected to accept the philosophy of Humanism and subscribe to it (Tordoff, 1980). In 1982, NCCM and RCM were merged into the giant Zambia Consolidated Copper Mines (ZCCM) entity (Tordoff, 1980). Ihonvbere (1996) argues that whilst the restructuring was nominally undertaken to benefit Zambians at large, "The process of expanding state control put vast resources and privileges at the disposal of the Zambian elite" (p. 51). At this point the state controlled economic activity ranging from mining conglomerates to bakeries.

The ruling party became so powerful that Kaunda saw himself as the father of the nation, the main hero of the struggle and even the personification of the nation (Ihonvbere, 1996). With the parastatals in place, the political elite were able to extract surpluses and accumulate capital to support political programmes because at this point there was no practical distinction between the ruling party and the government. As Ihonvbere (1996) points out, this extensive state intervention in, and control of, the economy resulted directly in increased corruption, waste and mismanagement; for examples, jobs were being offered on the basis of political affiliation.

2.4.3 Crisis and IMF Intervention

The nationalisation of foreign and private companies by the Zambian government arguably came at the wrong time, as this was a period in which global oil prices rose sharply while copper prices fell, consequently resulting in a decline in Zambian export earnings. In 1973, the nation experienced severe financial hardship, and this was seen by many as the starting point for what became a long slump in the economy of a once prosperous country. Copper revenues, which between 1965 and 1973 accounted for over 35% of Zambia's GDP, over 90% of all export earnings and 45% of total Zambian government revenues (Zacher, 1993) had halved in value on the world market by 1975. The following year, the balance-of-payments crisis, coupled with a bid to revamp the economy, led to Zambia becoming massively indebted to the International Monetary Fund (IMF). As McIntyre (2008) notes:

> "The drop in the prices of copper crippled Zambia's economy. Efforts to stabilise the world copper price through a cartel of copper-producing countries, similar to the oil-producing (OPEC)-countries failed" (p.10).

For mining companies, the sharp increase in the cost of production (reflecting increased oil prices along with the rapid decrease in income due to the fall in copper prices) was potentially fatal. In addition, inflation was rampant, running at over 60% in 1986 (Kalinda and Floro, 1992) and 190% in 1992 (Saasa and Carlsson, 1996). National long-term development plans were then instituted under the direction of a National Commission for Development Planning (NCDP) and the Transitional Development Plan (1964-66) which was later followed by the First National Development Plan (1966-71). However, these endeavours were all thrown into disarray, forcing the government to concentrate on short-term plans instead (Tordoff, 1980). According to Tordoff, the first two national planning programmes failed because, to many Zambians, 'Zambianisation'[19] meant little other than the replacement of departing colonial officers whilst having no significant effect on the economic situation. The ambitious Third National Development Plan (1978-83) with a broad-range of objectives and targets failed for similar reasons. Ultimately, all the three national development plans suffered from a lack of human resources and financial support

[19]The 'Zambianisation' philosophy was developed to increase indigenous control of the economy by the replacement of foreign businesses with African or Zambian businesses

(Kalumba and Freund, 1989). In the meantime, the IMF proposed measures to resuscitate the Zambian economy, the most significant of these being diversification, as the IMF had observed that the country's 'over-dependency' on copper mining had made the economy vulnerable to shifts in copper prices and recommended action in this regard. Other measures proposed included; the ending of price controls; devaluation of the Zambian currency; reductions in government expenditure; cancellation of subsidies on food and agricultural fertilizer and targeted price rises for farm produce. However, these measures were being proposed at a time when the country's economic meltdown was being felt by ordinary Zambians to such an extent that the attempt to remove food subsidies resulted in massive food riots and protests in the major cities around the country. For a government that appeared to be slowly losing its political grip, the IMF-driven decisions were extremely unpopular. In 1986, a government official publicly blamed the IMF for the economic problems in the country and a decision to free Zambia from its influence was made (Rakner, 2003). The subsequent New Economic Recovery Programme (NERP) introduced in 1988 reflected the government's desire to escape from the pressures of foreign creditors but it proved so unpopular that it too was terminated (Rakner, 2003), forcing the government to go back to the IMF in 1989. As a result, the government announced its intention to partially privatise the parastatals.

At this time, Zambia was rated as one of the most indebted nations in the world, relative to its gross domestic product. By mid-1989, Kaunda's one-party political system was losing public support, as the people began advocating a multi-party system. Pressure was thus mounting on both the economic and political fronts, forcing Kaunda to change the constitution to allow for a multi-party system of political governance. In November 1991, Kaunda was forced to cut his presidential term and call multi-party elections which he lost to the opposition leader Frederick Chiluba. The new government immediately embarked on an extensive programme of economic reforms aimed at liberalising an economy which had reached rock bottom. The new government endorsed free market policies, reversing state-ownership of enterprises through the Privatisation Act of 1992, which gave the legal basis and responsibility to the Zambia Privatisation Agent (ZPA) for all government privatisation (ZPA, 2009)[20].

2.4.4 Privatisation and debt-relief in the Post-Kaunda era

Privatisation in Zambia came about primarily as a practical way of recapitalising the SOEs and allowing them to operate efficiently and viably (ZPA, 2009). However, other reasons were advanced for the policy, including: mismanagement, monopolistic behaviour in manufacturing industries and the lack of competition common in parastatals (ZPA, 2009). However, on closer inspection it is clear that underpinning most of the stated aims of privatisation was a desire to develop a more robust system of what would now be described as corporate governance. The drive for privatisation in Zambia was a key part of an economic reform programme called the "Structural Adjustment Programme (SAP)"[21], intended to help create a private sector-driven economy with little interference from the Government. The privatisation of SOEs also relieved the government of Zambia of the mammoth losses continually created by the parastatal companies.

[20] The MMD government which took power in 1991 included privatisation in its manifesto as a centrepiece of economic reform. They were of the view that a large number of SOEs were consuming extensive resources from the state in the form of investment requirements and subsidies, whilst achieving negative returns for Government; also, several members of the SOEs' management were allegedly not accountable for commercial returns, but for political patronage instead and, therefore, the new government was required to remove all political interference in the running of the SOEs.

[21] Structural Adjustment Programmes are economic policies which countries must follow in order to qualify for new World Bank and International Monetary Fund (IMF) loans, and to help them make debt repayments on the older debts owed to commercial banks, governments and the World Bank. Although SAPs are designed for individual countries, they have common guiding principles and features which include: export-led growth; privatisation; liberalisation; and efficiency. SAPs generally require countries to: devalue their currencies against the dollar; lift import and export restrictions; balance their budgets and not overspend; and remove price controls and state subsidies.

In the year 2000, Zambia met the performance criteria[22] to qualify for the Highly Indebted Poor Countries (HIPC) debt relief programme. The HIPC initiative was launched in 1996 by the IMF and World Bank, with the aim of ensuring that no poor country faces a debt burden it cannot manage (IMF, 2009a). After receiving debt relief of approximately US $6 billion, the post-debt relief period saw Zambia record significant economic growth (averaging 4.5%) and for the first time in 30 years inflation fell to single digits (McIntyre, 2008). The debt relief freed up resources for social spending and the government had some breathing space to implement further economic reforms (IMF, 2009b); many believed that Zambia would now be able to withstand economic shocks such as falls in copper prices which have a direct effect on the economy. To help accelerate progress towards the Millennium Development Goals (MDGs)[23], the HIPC initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI) which allows for 100% relief on eligible debts by three multilateral institutions (the IMF, the World Bank, and the African Development Fund (AfDF)) for countries completing the HIPC Initiative process (IMF, 2009a). The IMF has supported Zambia's efforts in the past with policy advice, lending, technical assistance and poverty reduction. However, copper mining is still central to Zambia’s economic prospects and concerns remain that the economy is not sufficiently diversified to cope with a collapse in international copper prices (Europa Publications, 2004). Despite the efforts outlined in this section, Zambia remains among the poorest countries in the world (McIntyre, 2008).

[22] For example, countries must commit to poverty reduction through policy changes and demonstrate a good track-record over time. The IMF and World Bank provide interim debt relief in the initial stage, and when a country meets its commitments, full debt-relief is provided.

[23] The eight Millennium Development Goals (MDGs) - which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015 - form a blueprint agreed to by all the world’s countries and all the world’s leading development institutions. They have galvanized unprecedented efforts to meet the needs of the world’s poorest (United Nations, 2010).

2.5 The Legal Environment

2.5.1 History and Colonial Influence

As a former British protectorate, Zambia has retained the English common law system. La Porta et al. (2007) note that the historical origin of a country's laws is highly correlated with a broad range of its legal rules and regulations, as well as with economic outcomes; this theory is often referred to as the "Legal Origins Theory." According to this theory, a country's state of development may reflect - to a large extent - the extant legal system, which itself will have been influenced by origin, in particular the common law/civil law dimension[24]. La Porta et al. (2002), the argument appears to broadly favour the English-derived common law model which, the authors suggest, is associated with greater economic growth than the French civil law, Scandinavian or German models. The La Porta et al. analysis characterises French civil law-based systems as exhibiting heavy regulation, relatively poor property rights, more corruption, less political freedom and a propensity not to leave a favourable post-colonial legacy, especially in Africa[25].

The extent to which the Legal Origins Theory holds true or adequately describes reality in a nation such as Zambia is still debatable; for example, concern in Mozambique about the continued application of colonial law was argued by the United Nations (2005) as having more to do with the manner of Portugal's withdrawal from Mozambique (and the ensuing civil wars) than with the character of the civilian legal system the Portuguese left behind. Modern Zambia has a dual legal system, comprising the customary and constitutional law existing in English common law. The Zambian legal system is thus based primarily on common law traditions[26]. In fact, in the Zambian constitution there is a provision for the British Acts Extension Act, which provides for the extension or application of certain British

[24]Gleaser and Shleifer (2002 pp. 1193) argue that the modern laws in many countries that were colonised are heavily influenced by their colonisers.
[25]This tendency is in line with the arguments of Djankov et al. (2002, pp. 17 and 34).
[26]Cross and Miller (2007) noted the presence of common law systems in former British protectorates.

Acts to Zambia, and for amendments to certain British Acts in their application to Zambia (National Assembly of Zambia, 2006)[27].

2.5.2 Branches of the Law

Three main branches of law underpin Zambia's legal system. These are the executive, legislative and judiciary. The constitution operates at the centre of the three arms to articulate their roles and responsibilities. The executive is headed by the president who draws his powers and authority from the constitution; he or she is mandated to dissolve the national assembly, establish and dissolve government ministries and departments subject to the approval of the national assembly (United Nations, 2005). The executive branch of Zambia's government advises on policy decisions and carries out government programmes. The president is the chief executive and appoints a cabinet of senior officials to direct the work of government ministries. The president is elected directly by universal suffrage for a term of five years and may be re-elected only once. Zambia's legislative power rests with the national assembly where the republican president is also a member. The president is mandated by the constitution to call parliament to sit and order elections. With the power vested in him/her, he/she gives final approval to laws enacted by parliament although he/she does not take part in the deliberations of parliament. The legislative branch of government makes laws and represents citizens. Legislative power is exercised by bills passed by the National Assembly and assented to by the President in order to become law. The constitution stipulates that parliament shall consist of 160 members, 150 elected by universal suffrage and 8 nominated by the president, plus the speaker and the president (National Assembly of Zambia, 2006). Apart from enacting laws, the national Assembly also approves

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[27]Chapter 11 of the Laws of Zambia also formally outlines the extent to which the Law of England applies in the Republic of Zambia.

proposals for taxation and public expenditure and, to a large extent, keeps the work of the Government under scrutiny and review (Judiciary of Zambia, 2009).

2.5.3 The Zambian Court System

The Zambian judiciary system is made up of courts arranged in a strict hierarchy (United Nations, 2005). This is the branch of government that enforces the law. Zambian courts are arranged as follows: the Supreme Court; the High Courts; the Subordinates or Magistrate's Courts; the Industrial Relations Court; and the Local Courts[28] and any other courts as may be prescribed by an Act of parliament. The President appoints the Chief Justice (subject to ratification by national assembly) as well as the Director of Public Prosecutions and the Attorney General, the latter being the principal legal adviser to the government. The judges of the Supreme Court and the High Courts are subject to ratification by the National Assembly, also appointed by the President, while the magistrates who preside over the subordinate courts are appointed by the Judicial Service Commission. The conduct of the judges is governed by the provisions of the Judicial Code of Conduct Act, 1999 (Alemika, 2009), while a Judicial Complaints Authority has also been established[29]. Common law is administered by several high courts, which have authority to hear criminal and civil cases and appeals from lower courts[30]. The Supreme Court is the highest and final court of appeal in Zambia (Judiciary of Zambia, 2009). The statutory provisions are adequate to guarantee judicial independence, but political influence and problems such as poor funding, trial delays, lack of training for local court judges and corruption have consequently resulted in the judiciary failing to attract and retain professional staff (Transparency International,

[28]See also Judiciary of Zambia (2009).

[29]Members of the commission are appointed by the President subject to ratification by Parliament. The findings of the commission on misconduct by a judge are forwarded to appropriate authority for action (including the Director of Public Prosecutions) for prosecution, where necessary.

[30]Resident magistrate's courts are also established at various centres.

2007; Alemika, 2009)[31]. In order to enhance judicial independence these inadequacies need to be addressed because an independent judicial system not only enforces the rule of law but also aids economic development (Wanyama et al., 2009)[32].

2.5.4 Post Colonial Trends

The legal system in Zambia was established during British colonial rule, though at the time the principle of separation of executive, legislative and judicial branches was not observed as colonial administrative officers exercised both legislative and judicial powers. Alemika (2009) argues that under colonial rule, the judiciary and legislative branches of law were viewed as instruments of administration rather than as providers of checks and balances to the executive. However, even in post-colonial Zambia, the executive organ is still dominant, to the extent of eroding the powers, independence, performance and integrity of the legislature and judiciary, despite the nation's elaborate de facto constitution. The English common law on which the Zambian laws are founded have undergone a number of changes to suit the modern social and economic environment while the bulk of Zambian laws remain unchanged and therefore not responsive to the modern social and economic environment (MFNPD, 2004), arguably because mainly government's persistence involvement in the economic management of the country (Rackner, 2003). The 1991 political and economic reforms have altered the situation slightly but the regulatory framework and the legal infrastructure remain very weak in Zambia (MFNPD, 2004). This lack of robustness in turn has had a negative impact on the development and regulation of corporate governance in

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[31]However, recent developments - especially the building of more court offices and court rooms and increased budgetary allocations - should help mitigate some of the problems faced by the judiciary. For example, the government of Norway provided about US$3million towards the construction of the new magistrates' courts complex in Lusaka while Sweden spent about US$650,000 furnishing the court buildings, China provided electrical typewriters, and the German Technical Cooperation Agency helped develop training programmes (Institute for Security Studies, 2009).

[32]Rule of law aids economic development by enhancing the enforcement of contractual rights and obligations and thereby promoting economic investment, productivity and opportunities with positive impacts on employment, incomes, poverty reduction and avoiding economic-induced conflicts and insecurity.

Zambia. Several African studies have highlighted the serious consequences that a weak legal system can have on governance standards, as well as a growing perception amongst Africans that this issue is harming Africa's development in a tangible way[33].

2.6 The Regulatory Environment

2.6.1 Risk and Investment

According to USAID (2009), one of the reasons for the historically poor performance of many African countries in attracting Foreign Direct Investment (FDI) is the risk associated with such ventures on the continent. Mugerwa et al. (1998) maintain that Africa is generally perceived to be a high risk continent for investment and is thus less open to international trade. Mugerwa et al. note that "While global foreign direct investment reached $100 billion in 1995, with 65% going to Asia and 27% to Latin America, only 5% went to Africa" (p.122). Such risks are often suggested as reflecting irresponsible political behaviour that leads inevitably to political instability and crises in governance (Boubakri et al., 2005; Visser et al., 2006). Weak investor protection and inefficient institutions are some of the factors making Africa a high risk investment environment and hindering the quality of governance (Boubakri et al., 2005; Doidge et al., 2007). In these environments, the legal system is usually weak and the law cannot adequately protect investors - the extent of civil order, taxation, domestic price controls, production restrictions, even government itself can change at any time (Doidge et al., 2007; Wanyama et al., 2009). Although political risk can be managed, it is often difficult in practice because of uncertainties surrounding its nature (De Hoyos, 1999). The presence of political risks and uncertainty about the future complicates the theoretical simplicity of calculating costs and benefits (Lax, 1983). Equally, it could be argued that an efficient functioning economy will not be realised unless there is a stable political system providing the necessary framework. However, Harms (2000) argues

[33] See, for example, Wanyama et al. (2009) who report evidence relating to Uganda

that many developing nations have in fact reformed and improved their regulatory frameworks (although not sufficiently to attract significant capital inflows). Here, the USAID (2009) point out that:

> "While this risk is sometimes associated with macroeconomic conditions and political stability, more often it arises from the poorly formulated policies, inappropriate regulations, and onerous bureaucratic requirements that continue to frustrate business start-up and operations in Southern Africa" (p.1).

As argued above, Africa - and Zambia in particular - cannot formulate robust policies in the context of a serious governance crisis.

2.6.2 Corporate Governance and Regulation in Modern Day Zambia

The importance of the preceding issues for Zambia is evident in the nation's on-going shift from command economy to market-based economy that began in 1991, with far reaching reforms aimed at supporting, regulating and protecting private enterprise. However, there is as yet no legislature that specifically covers corporate governance. Regulation therefore occurs via the corporate governance code developed for Lusaka Stock Exchange-listed companies, introduced in 2005[34, 35]. The government has a critical role in providing an enabling environment for all businesses, from SMEs to large national and global firms while also fostering an environment conducive for increased internal and external investment. Several developments are currently underway to improve the regulatory framework and enhance investment in the country, but a number of regulatory impediments appear to be affecting the development of competitive free markets; these include a lack of capacity to enforce the law and other regulation as well as Government's continued ownership and control of major utility companies (Chulu, 2006).

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[34] This is detailed in section 2.8 below

[35] Notwithstanding the absence of specific legislation relating to corporate governance, several Acts of parliament and other instruments have an impact in this regard. The notable ones are outlined in Appendix 2.1.

2.7 Education

2.7.1 Historical Context

A number of studies have linked education to democratic behaviour and attitudes, as well as being an indicator of socio-economic position (Garrison, 1979). In addition, recent studies of sub-Saharan Africa (e.g Wanyama, 2006) have explicitly linked educational deficiencies to weaknesses in extant corporate governance mechanisms. Before independence, the colonial powers attempted to shape the schooling process to support their own ends, as they had little interest in promoting native education (Carmody, 1992)[36]. At independence, there was a huge deficit in terms of educated indigenous Zambians capable of running the government and the economy; one manifestation of this was that the country only had 107 university graduates (RZ-MOE, 2009). Zambians began to realise that access to education was not only a means for a few to achieve privileged positions in society, but was also important for economic advances across society as a whole. The Zambian government thus began a programme of sweeping changes in the education sector. Specific reforms included changes in education policies and - critically - infrastructure development to support these moves (Silanda et al., 1999). More schools were built around the country; this was done with a sense of urgency to redress an area of neglect by the colonisers. The country then witnessed a remarkable acceleration in education, to the extent that between 1964 and 1972, annual secondary school enrolments increased from about 14,000 to 61,000 (Crowder, 2003). These expansions were challenged by limited resources, both financial and in terms of capacity, as more and more Zambians demanded exposure to education. Government efforts here were supplemented by the missionaries and the private sector. The private school system emerged mainly because of the poor quality of education in government-run schools and the lack

[36] In this context, Posner (2003) noticed that by the time they got involved in education, missionaries were already operating close to 2000 schools in Northern Rhodesia with combined enrolments of more than 89,000.

therein of infrastructure, personnel and other resources[37]. Private schools were dominated by Christian churches (Waters, 2008). The high standards in privately-run schools, especially those run by the church, as noted by Grace and O'Keefe (2007) became the first choice for quality education seekers all over the world, Zambia included. Before and just after independence, educational development in Zambia was in fact dominated by missionaries, a state of affairs which reflected British colonial influence (Ragsdale, 1986). Although the government asked churches to surrender schools to the state after independence, to date there are a good number of schools in Zambia that are still being run by missionaries (Carmody, 2000). The pro-colonial education system had a number of certification levels that resembled those in the British system[38].

2.7.2 The Modern Zambian System

Zambia's modern education structure provides broad-based childhood education with a sharp apex at the higher education level (RZ-MOE, 2009). According to the Ministry of Education, the system begins with early childhood education based on recognition of the importance of early experiences in the development of a child's social, physical, mental and emotional capacities. Following (optional) pre-school, Zambians embark on seven years of primary education, which has the stated aim of laying the foundation on which all further education must build. The completion of primary education leads to secondary education which has duration of five years[39]. Although a number of education reforms are now taking place, admission to secondary education is based on performance in examinations at the end of primary education implying that not all children are expected to proceed to secondary education. There are more secondary schools than there are colleges and universities in

[37]English was adopted as the official language of instruction in Zambian schools and all subjects except the vernacular languages were taught in English. However, in rural schools pupils still continue to receive their primary education in their respective vernacular languages.
[38]In fact, for many years, secondary school education was formally supervised by the University of London.
[39]This is divided into junior secondary (grade 8 to 9) and senior secondary (grade 10 to 12).

Zambia and therefore the demand for admission to higher institutions is far from being satisfied (SARPN, 2008). Equally, higher education is very limited as there are very few well-established universities and in any case most Zambians cannot afford the fees (Banda, 2007; SARPN, 2008). The two main universities are the University of Zambia[40] and the Copperbelt University[41]. Those that do make it to state universities have access to state bursaries targeted at poor and vulnerable students; the majority are now receipients of extensive government support (RZ-MOE, 2009).

The bottlenecks in terms of higher education - and the selection hurdles associated with it - mean that the majority of those who enter the Zambian school system fail to go onto third level education. In recognition of this problem, continuing education systems have been made a priority in the new education structure (RZ-MOE, 2009). Before 1991, the Ministry of General Education Youth and Sport and the Ministry of Higher Education, Science and Technology controlled education in Zambia, but now the two are split into the Ministry of Science and Technology and the Ministry of Education with the latter taking charge of primary education, secondary education, teacher training and universities. The Ministry of Education is in charge of formulating education policy and overseeing the operation of all educational institutions, including the two universities[42].

[40]The University of Zambia is Zambia's largest university, founded in 1966. It has a student population of about 10,000.

[41]In recent years a number of universities have emerged but these are still in their infancy and offer a limited range of courses. These include: the Catholic University; Mulungushi University; Zambia Open University; Cavendish University; Zambia Adventist University; Northrise University; and the University of Lusaka.

[42]The technical and vocational institutions are exempt, falling under the remit of the Ministry of Science and Technology instead.

2.8 Corporate Governance in Zambia

2.8.1 Governance and Development

The concept of corporate governance is very new in Zambia, only becoming a concern in recent years. However, the country now appears to have seen the need for stronger governance in listed and non-listed companies, as well as for parastatals and the government itself (Lungu, 2005). As noted earlier, the country has seen a number of economic models being used by the government to try and ensure that economic recovery is embedded fully, but all have proved futile. Lungu contends that the heightened focus on the notion reflects on-going concerns in Zambia regarding how the economy is being run and the way companies are directed and controlled. Zambia, like most African countries, is now committed to reforms that are aimed at fostering economic development, and improved corporate governance is one of the agenda items in this context. However, in practice the drive for better governance is galvanised by several different factors. Firstly, there has been a realisation of the strong link between corporate governance and development (Shleifer and Vishny, 1997; Berglof and Thadden, 1999; ECA-SA, 2005; Wu, 2005; NEPAD, 2007; Okike, 2007; Solomon, 2010). Consistent and substantive economic development has eluded Zambia for a long time and the findings of Claessens (2003), who documents evidence of a positive role for corporate governance in the development of emergent nations, suggests where Zambian priorities might usefully lie. In this context, the IFC (2007) argues that "Good corporate governance is a public good and can be considered a pillar of sustainable economic development on a par with good environmental and social practices".

2.8.2 Governance Failures

The proliferation of corporate scandals and crises internationally is well documented and itself represents one of the key catalysts for the current focus on the way companies are run (Wanyama et al., 2009). However, Wanyama et al. maintains that these systematic failures are not restricted to developed economies. Indeed, a number of liquidations in Zambia, especially in the banking sector, have been attributed to the absence of 'good' corporate governance practices (Zambia National Assembly, 2008). A study to review the banking sector reforms and bank regulatory failure in Zambia by Maimbo (2001) reveals that nine banks collapsed between 1995 and 1998. The corporate scandals and failures that the country witnessed in the banking and financial services industry during this period unearthed serious flaws and lapses in the governance arrangements of banks and similar financial institutions as well as the broader issue of state regulation of the sector (MFNPD, 2004). The events exposed the weak regulatory environment that banks and other financial institutions operate within. Although the situation has been partly addressed through the introduction of a code for financial institutions (Bank of Zambia, 2006) much more needs to be done (IODZ, 2009).

Nonetheless, to minimise failures in the banking sector, in 2006, the BOZ issued guidelines on corporate governance[43]. This initiative was in addition to the introduction of the Banking and Financial Services Act, Cap 387 of the Laws of Zambia (Constitution of Zambia, 2006) which provides for the regulation and conduct of banking and financial services in Zambia. The economic reforms of the 1990s witnessed extensive transfers of company ownership from government to private investors; this both reflected and resulted in the large-scale privatisation of SOEs, sparking the need for stronger corporate governance practices in the private sector (Lungu, 2005). According to Lungu, the introduction of these codes is evidence of Zambians coming to understand that improving corporate governance is vital for economic prosperity. Corporate governance is now regularly viewed as a remedy for developing countries' poor record on corruption[44] (Wanyama, 2006; Wanyama et al., 2009;

[43]These are detailed in Chapter Four, where Zambian corporate governance is discussed in detail.

[44]As evidenced by consistently poor rankings on the Corruption Perception Index (CPI) (Transparency International, 2007).

Tangari and Mwenda, 2001). In addition to corruption, the Anglo-American Corporation's pull out of Zambia's main mining conglomerate in 2002 just two years after acquiring the company has had major impact. In particular, this led to the government appointing a task force to save the mines from total collapse and a number of corporate governance challenges for the country emerged (Kaleyi, 2002; Kaunda, 2002).

2.8.3 Governance Initiatives and Current Regulation

Major recent initiatives to promote corporate governance in Zambia in the light of these events include: the establishment of the Institute of Directors of Zambia (IODZ) in 2000; the appointment of the Task Force to Save Konkola Copper Mines (KCM) in the year 2002; the development of a corporate governance code for LuSE listed and quoted companies in 2005; and the development of a corporate governance code by the IODZ for Small and Medium Enterprises (SMEs) in Zambia. These initiatives - together with support from regional and international corporate governance bodies - have shaped the direction of corporate governance in the country[45]. The notable regional and international corporate governance bodies include: the International Finance Corporation (IFC); the Commonwealth Association for Corporate Governance (CACG); the Organisation for Economic Cooperation and Development (OECD); the New Partnership for Africa's Development (NEPAD); the World Bank; the International Monetary Fund (IMF); the Global Corporate Governance Forum (GCGF); the Economic Commission for Africa (ECA); the African Peer Review Mechanism (APRM); the King Report; and the Cadbury Report.

Corporate governance regulation in Zambia today is based on the Lusaka Stock Exchange's listing rules and its voluntary corporate governance code. All listed firms are encouraged to abide by the exchange's corporate governance code and so, as in the UK, it is the stock

[45]Good governance-conditional Donor Aid has played, and continues to play, a significant role in improving corporate governance (Santiso, 2001).

market authorities who are charged with ensuring compliance. The formation of the exchange in 1994 represented a key part of the government's economic reform programme aimed at developing the nation's financial and capital market and supporting and enhancing private sector initiatives. The Lusaka Stock Exchange is also expected to attract foreign portfolio investment by promoting Zambia as an emerging capital market with potentially high investment returns. Another important role of the Exchange is to facilitate the divestiture of Government ownership in parastatals and realise the objectives of creating a broad and wide shareholding ownership amongst the citizenry via a fair and transparent process (LuSE, 2008). However, the corporate governance framework in Zambia depends on the company law regime and other Zambian laws that relate to corporate governance matters, for example the Companies Act, Cap 388 of the Laws of Zambia (Constitution of Zambia, 2006) which govern corporate activity in Zambia. This Act provides for the formation, management, administration and winding-up of companies, the registration of charges over the undertakings or properties of companies, and the registration of foreign companies doing business in Zambia.

2.9 Conclusion

The aim of this chapter has been to provide an overview of historical and contemporary Zambia, to provide context for the empirical analysis presented later in the thesis. In particular, the material presented here is intended to help explain why a study of governance in the nation's corporate sector (including its relationship with economic development) is likely to be important and of relevance to a country with Zambia's political and economic circumstances. In addition, the discussion in the chapter should provide the basis for explanations given later in the thesis for observed practice as well as the normative recommendations made in the conclusion. In this context, the chapter has attempted to demonstrate Zambia's huge reliance on copper as a single primary export, making the country highly vulnerable to swings in commodity prices. It is widely accepted that the Zambian economy suffered for many years because of state protection and the reforms undertaken in the early 1990s to shift from government control to an open-market system have also been noted representing, as they do, a redirection of the country's economic philosophy. The reforms have been accompanied by a range of institutional developments, at corporate level, in terms of market regulation and even as regards education. Having set out the context for the present study, the thesis continues by examining in detail the most relevant literature pertaining to the empirical work. Chapter Three discusses the body of work on corporate governance in general, before Chapter Four focuses on the situation in Zambia specifically, where some of the issues touched on in the present chapter are explored in more detail. Given this scenario, the remainder of this thesis is aimed, at investigating whether, and how, further improvements to Zambia's corporate governance might benefit the population of a nation which, while relatively stable politically, still ranks among Africa's poorest and requires significant inward investment.

CHAPTER THREE

LITERATURE REVIEW: GLOBAL ASPECTS OF CORPORATE GOVERNANCE

CHAPTER THREE
LITERATURE REVIEW: GLOBAL ASPECTS OF CORPORATE GOVERNANCE

3.1 Introduction

This chapter provides an overview of the elements of the extensive corporate governance literature that are most relevant to the present study. Corporate governance has recently emerged as a mainstream topic and is now one of the most common phrases in global business (Solomon, 2010). Similarly, Mallin (2009) argues that: "...corporate governance and its everyday usage in the financial press is a new phenomenon of the last fifteen years or so" (p. 13)**.** Corporate governance has emerged as a national and international issue (Cadbury, 2002) and one of the most widely discussed topics in business today because of the serious consequences that weaknesses therein (or its absence) can have on shareholders, employees and their pensions, suppliers of goods and services to corporations and economies at large. Though not a completely new concept, corporate governance's revival is perhaps a manifestation of the fact that the principles and regulations surrounding the manner in which modern corporations are directed and controlled needs to be revisited (Dragneva and Simons, 2001). More than ever before, corporate governance issues are being widely researched and heavily debated, attracting considerable attention from both academics and practitioners in finance, accounting, management studies, business strategy, public policy, law, economics and society at large.

Although Dallas (2004) argues that corporate governance has always been integral to business practices, the concept has today become an interdisciplinary topic because its boundaries are no longer synonymous with corporate confinements (Sloan, 2001 p. 337; Aoki, 2003; Babic, 2003; Clarke, 2004). The growing interest in corporate governance is manifested in the increasing body of academic research in the area; voluminous books on the topic are written every year and studies of corporate governance appear regularly in almost all top academic journals[46]. The number of centres that have been established to co-ordinate academic research on corporate governance around the world is also expanding[47], while numerous other public corporate governance platforms have emerged that are not purely academic in nature but contribute significantly to corporate governance developments, reforms and practices[48]; there are also numerous institutes of directors all over the world performing a similar function including in Zambia. The international nature of some of these bodies reflects the tendency for modern corporate governance to cut across regional and international bodies while their number points to the importance of the topic.

3.2 Corporate Governance Revival

The revived interest in corporate governance is two dimensional. The first relates to the increasingly dispersed share ownership patterns and conflicts of interest that accompany the separation of ownership and control in more and more nations as large scale privatisations take place, and, second, the increase in the number and magnitude of high profile corporate scandals that have exposed weaknesses in current practice. The latter has led to sweeping laws and regulations in several countries which some scholars argue are ill-considered and may actually harm the corporation (Lipton and Lorsch 1992). However, Iskander and Chamlou (2000) believe that the new laws and regulations “are not meant to shackle the corporations but rather to balance the spirit of enterprise with greater accountability” (p. 1).

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[46]Notably: Corporate Governance: An International Review Journal (published by Blackwell); Corporate Governance: The International Journal of Business in Society (published by Emerald); and The British Accounting Review (published by Elsevier).

[47]E.g. the Centre for corporate governance research – The University of Birmingham, (2010); The Centre for corporate governance - (London Business School, 2010); Millstein Center for Corporate Governance and Performance - (Yale School of Management, 2010); The Corporate Governance Center – (University of Tennessee, 2010).

[48]For example, the OECD Steering Group on Corporate Governance (Organisation for Economic Cooperation and Development, 2010); The Global Corporate Governance Forum, an International Finance Corporation (IFC) multi-donor trust fund facility located within IFC Advisory Services (International Finance Corporation, 2010); and The Commonwealth Association of Corporate Governance (2010).

The scandals have however, left many questioning whether the laws and regulation in place today are adequate to protect shareholders from abuse by their own agents. Jensen and Meckling (1976) and La Porta et al. (2000) identify shareholder protection from insider appropriation as crucial with both laws and their enforcement the main determinants. However, Lipton and Lorsch (1992 p. 1) argue that the problem is not the laws and regulations themselves, but is instead failures by those entrusted with the management of corporations (i.e. the directors) to make the system work. Similarly, Dallas (2004) believes that:

> "…there is the risk of cynical manipulation by companies or individuals who may wish to 'game' the system by creating a façade of high governance standards while hiding a rot that is concealed beneath the surface" (p. 4).

Behind the laws and regulations, there appears to be an assumption that there will always be people of integrity to ensure the systems operate as designed. However, the corporate world has in the recent past witnessed managers who have elected to pursue their interests above those of shareholders, consequently short-circuiting the system.

3.3 Corporate Governance Defined

Corporate governance has attracted extensive public interest because of its apparent importance in aiding accountability, fairness, transparency, disclosure, the economic health of corporations and its ultimate contribution to economic development (Solomon, 2010). Its interdisciplinary nature poses great challenges for researchers in terms of attaining a universally accepted definition, and as a result, several definitions have emerged. The concept is sometimes poorly defined or defined to cover one aspect of corporate governance which, when considered from a different discipline, may be misleading (Mallin, 2009). A continuum of corporate governance definitions now exists, ranging from those that focus entirely on investors and the corporation's responsibility to maximise wealth for them

(Shleifer and Vishny, 1997; Nganga et al., 2003) to those that focus on a wider perspective, responsive to the needs of different stakeholder groups (OECD, 2004b; Solomon, 2010).

While these two broad classes of attempt to pin down the notion of corporate governance are evident in the literature**,** Plessis et al. (2005) note that: "One thing that is clear about the concept of corporate governance is that there is no set definition as to what it means" (p. 1), while Lee (2006) argues that: "Corporate governance appears to have as many meanings as it has its users" (p. 29), and Solomon (2007) states simply that: "there is no single, accepted definition of corporate governance" (p. 12). In relation to a corporation, Monks and Minow (2004) compared the definition of a corporation to the parable of the three blind men:

> "anyone who tries to come up with a definition is like the blind men who tried to describe an elephant - one feeling the tail and calling it a snake, one feeling the leg and calling it a tree and one feeling the side and calling it a wall" (p. 9).

A number of researchers appear to have defined corporate governance so as to befit their specific interests in the area. For example, the South African King Report I in 1994 on corporate governance was highly influenced by the country's special circumstances prevailing at the time, particularly the belief that the wealth of the nation was concentrated in the (minority) white population in the immediate post-apartheid era (Iheduru, 2004). The numerous suggested definitions of corporate governance are perhaps an indication that the debate surrounding the subject is far from trending towards convergence. Based on this brief background it is only fair to list a few of these various definitions rather than just mentioning one.

3.3.1 The Cadbury Committee's Definition of Corporate Governance

The Cadbury Committee, set up in May 1991 to investigate corporate governance[49] levels in the United Kingdom, produced one of the first detailed reports on modern corporate governance, and provided the following in terms of a definition: "Corporate governance is the system by which companies are directed and controlled" (Cadbury Report, 1992 p. 15). The 1992 report established itself as a blue print for subsequent reports in Britain and elsewhere. The Cadbury Committee identified the critical roles of shareholders as appointing directors and auditors and ensuring that the sound governance structure needed to protect their interests in the corporation exists. The report also points out that central to modern corporate governance practices is the notion of the board of director's responsibility for the governance of their companies. Sternberg (2004) puts it this way: "…shareholders choose the destination, the directors determine the route, and the executives drive the car" (p. 42). This approach calls for the establishment of governance structures and processes through which management can be made accountable to shareholders with the objective of enhancing shareholder value. The Cadbury definition was also adopted by the South Africa's report on corporate governance, the King Report I (1994) and the UK's Hampel Committee that published its Final Report on corporate governance in 1998[50]. While the Hampel Committee made no attempts to re-define corporate governance it made the explicit

[49]The report, published in December 1992, confined itself to the "Financial Aspects" of corporate governance. The committee was set up by the Financial Reporting Council, the London Stock Exchange, and the accountancy profession. The report applied to London Stock Exchange (LSE) listed companies reporting after 30th June 1993. Since then a whole series of revised codes have been issued in the UK, most recently (June 2010, the UK Corporate Governance Code) but the 'comply or explain' basis and substantive requirements have remained similar most pertinently the new code quotes and reiterates the Cadbury definition of corporate governance terming it "Classic"

[50]"We can accept the Cadbury committee's definition of corporate governance as 'the system by which companies are directed and controlled' (report, paragraph 2.5). It puts the directors of a company at the centre of any discussion on corporate governance, linked to the role of the shareholders, since they appoint the directors. This definition is of course a restrictive one. It excludes many activities involved in managing a company which may nevertheless be vital to the success of the business" (p. 11).

claim (absent from Cadbury) that whilst the board is 'responsible for relations with' main potential stakeholders, accountability is due only to equity holders.

Chambers (2002) argues that the Cadbury definition focused excessive attention on the control side of governance at the expense of formulation of policy and strategy development. This, according to Chambers (2005), has diverted boards' attention away from direction and strategy and on to accountability, audit, risk management and control matters. However, Chambers (2005) explains that the UK's bias towards control could have prevented the spectacular corporate governance catastrophes at WorldCom and Enron in the USA. Other scholars perceive the Cadbury definition as being too narrowly-focused, as it (like those that followed in the UK) concentrates on the relationship between a company and the owners (Sheikh and Rees, 1995; Solomon, 2010). However, Sir Adrian Cadbury later offered a broader corporate governance definition thus:

> **"**Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals…the aim is to align as nearly as possible the interests of individuals, corporations and society" (Cadbury, 1999 p. iv).

Despite the sheer number of corporate governance definitions, the original Cadbury terminology has not been disputed to any major extent. In fact, it is widely recognised in the field of corporate governance and continues to be used as the basis of other definitions; for example, The King II Report of 2002 and the Global Corporate Governance Forum in 2003. Dallas (2004) argues that the genesis of the current debates and modern literature on corporate governance is, to a large extent, espoused by the work done by the UK's Cadbury Committee in the early 1990s.

3.3.2 Shleifer and Vishny's Definition of Corporate Governance

Shleifer and Vishny (1997) defined corporate governance as follows:

> "Corporate governance deals with the way in which suppliers of finance to corporations assure themselves of getting a return on their investment" (p. 737).

This is the definition that most supporters of the shareholder model (i.e. the traditional Anglo-American theory) of corporate governance embrace. The assumption in the above wording is that corporate actions are directed at achieving the objectives established by the owners and, in this case, lenders. This is what Sternberg (2004) argues is the "official" objective relevant to corporate governance; according to Sternberg, anything beyond this constitutional purpose violates corporations' very reason for being. Because ownership and control are separated, corporate governance in this context is viewed as a mechanism for aligning managers' actions to the corporate purpose established by shareholders; accountability in this sense is discharged towards achieving the latter (Sternberg, 2004). Whilst directors are assumed to have a fiduciary duty to carry out business in the best interests of the company's current and future shareholders, Brennan and Solomon (2008) argue that such an approach is sometimes viewed as narrowly-focused because it excludes the wider community of other stakeholder groups that participate in the success of the corporation (see Coleman, 2007 and Solomon, 2010).

3.3.3 The OECD Definition of Corporate Governance

Since 1999, the Organisation for Economic Co-operation and Development (OECD) has been responsible for advancing the corporate governance agenda in OECD member countries and its principles have influenced the development of codes in many developing nations. The OECD (2004b) views corporate governance as involving:

> "…a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. [To] provide proper incentives for the board and management to pursue objectives that are in the interest of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company and across an economy as whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy" (p. 11).

Teresa (2004) argues that the OECD principles of corporate governance grew out of the Cadbury Committee's Report, and its definition of corporate governance is an extension of the latter's definition. Without disputing the Cadbury, the OECD went further by embracing governance relations and exploring the benefits of good practice for both corporations and economies. There is recognition that corporations no longer act independently from the societies in which they operate; how firms relate to society is therefore crucial in a corporate governance setting. Because of its relatively wide perception, the OECD definition is viewed as broad and more pervasive than many others (Jesover and Kirkpatrick, 2005).

3.3.4 Solomon's Definition of Corporate Governance

Solomon (2010) also acknowledges that corporate governance is relatively new as a mainstream subject and, coupled with its dynamic nature, this leads to definitions sometimes varying across and even within national boundaries. However, Solomon views corporate governance definitions that are restricted to the traditional finance paradigm (shareholder-centric) as narrow. Influenced by the current trend for broadened corporate governance frameworks, Solomon (2010) instead defines corporate governance as follows:

> "…the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity" (p. 6).

Solomon's definition thus embraces a number of issues that have attracted renewed attention in recent years, such as broadened accountability and corporate social responsibility premised on a stakeholder inclusivity approach. This perspective is particularly relevant for Africa where there have been calls for a broader governance paradigm that accommodates the continent's complex cultural, political and economic factors (Wanyama et al., 2009).

3.3.5 Nganga et al.'s Definition of Corporate Governance

Nganga et al. (2003) defined corporate governance as: "...the set of mechanisms through which outside investors are protected against expropriation by insiders" (p. 6). The authors defined insiders as including managers, major shareholders (individuals, other firms, family interests and/or governments) as well as large creditors (e.g. banks), while outsiders encompass equity investors, providers of debt, minority shareholders etc. Nganga et al. describe corporate governance as “simply the prevention of theft” (p. 4) and so their definition is very different in emphasis from the other three. These authors take a radical look at corporate governance, seeing it as a mechanism for the “prevention of theft” by those that have a management role in the firm. ‘Theft’ is clarified in the study as including: outright theft of assets, transfer pricing, excessive executive compensation and diversion of funds to projects that do not benefit the suppliers of finance. According to Lungu (2005), the abuses mentioned by Nganga et al. are some of the most prevalent across corporate Africa as whole.

Accountability, transparency, integrity and investor protection are common themes in all the above definitions. Following Solomon (2010)’s argument that corporate governance definitions fall on a spectrum (narrow to broad), the Cadbury Report (1992), Shleifer and Vishny (1997) and Nganga et al. (2003) all tend to focus on the relationship between the company and its shareholders, thereby ignoring a number of stakeholder groups that participate in the creation of wealth for the company; they therefore fall on the narrow end of the spectrum. At the other end of the spectrum lies the OECD (2004b)’s and Solomon (2010)’s definitions, which are broad-based, and more stakeholder inclusive. While the Cadbury definition has formed the basis of corporate governance codes the world over, this study adopts Solomon (2010)’s definition. The reason for this choice is laid out in detail in the theoretical framework chapter.

3.4 Developments in the Theory of Corporate Governance

3.4.1 Overview

While there is a large literature that examines development of corporate governance's theoretical underpinnings, these have generally emanated from scholars in developed nations; theoretical work pertaining to Africa is scant. There is a general consensus that the development of corporate governance in Africa should be viewed in the context of its relationship to development, democracy, state effectiveness and the market (NEPAD, 2007). Nevertheless, Mallin (2009)'s broad theoretical framework is discussed here as many of the concepts appear to be of relevance in both emerging and developed contexts.

3.4.2 Agency Theory

Agency theory is one of the best known and most widely used theories across the business and finance discipline (Spence and Zeckhauser, 1971; Jensen and Meckling, 1976; Fama, 1980). Agency theory is customarily considered the genesis for debate on corporate governance (Smith, 1838; Berle and Means, 1932; Jensen and Meckling, 1976; Fama and Jensen, 1983; Coleman, 2007). As Berle and Means (1932) note, the fundamental agency problem in modern firms reflects the separation of management and control; academic investigation of agency theory relates to conflicts of interest that arise between self-interested people with different interests in the same assets and organisations, primarily managers and owners. Whilst acknowledging that various agency relationships exist in Zambian firms, the present study focuses on the wider stakeholder perspective models.

Recognising the separation of providers of capital from the executive management creates the tension which agency theory purports to diffuse (Lu and Battern, 2001). Jensen and Meckling (1976) defined an agency relationship as follows:

> "[A] contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating

> some decision making authority to the agent. If both parties to the relationship are utility maximisers, there is good reason to believe that the agent will not always act in the best interests of the principal" (p. 5).

Mallin (2007) describes agency theory in similar terms as follows:

> "Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. The agency relationship can have a number of disadvantages relating to the opportunism or self-interest of the agent: for example, the agent may not act in the best interests of the principal, or the agent may act only partially in the best interests of the principal" (p. 12).

In both definitions, agency theory is viewed as explaining the relationship between principals (shareholders) and agents (company executives); Eisenhardt (1989) argues that from this perspective the theory can be seen as focussing on solutions to the conflict between principal and agent and resolving differences in risk preferences when the parties have different attitudes in this regard (see Mallin, 2007, 2009). The principal-agent concept and the separation of ownership and control have been cited as explanations of the controversy surrounding the relationship between shareholders and directors in the modern corporation (Berle and Means, 1932). Agency theory is thus pertinent to any corporate governance debate as it predicts (and influences) the structure and composition of boards and (more generally) the balance of power between the capital providers and directors (Cadbury, 2002). However, critics of the theory describe it as having a narrow focus because of its concentration on stock price (Hirsch and Friedman, 1986), while others describe it as one-sided because it excludes other relevant participants (Perrow, 1986). Whilst this study does not explicitly employ agency theory as its theoretical lens, some of the central tenets of the model are evident in Zambia (i.e. the separation of capital provision from executive functions) and therefore the issues are explored further in the theory chapter.

3.4.3 Stakeholder Theory

In contrast to agency theory, stakeholder theory proposes a broader corporate answerability that extends beyond shareholders. Coleman (2007) argues that by identifying shareholders as the only interest group in the corporate entity agency theory exposes its narrowness, thereby prompting the proponents of stakeholder theory to call for a balance between the competing interests of diverse stakeholders. In this context, stakeholder theory explains the role of corporate governance in Zambia than agency theory. Freeman (1984) defines a stakeholder as "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (p. 46), while an earlier analysis, by Dill (1975), viewed stakeholder relationships in terms of influence and responsibility; one dimension of the latter relates to firms' influence on stakeholders while another exists in terms of the stakeholders' impact on the firm. By implication, stakeholders' levels of interest and power in the firm differ. Solomon (2010) notes that stakeholder theory is framed on the premise that company success is achieved through broader participation, implying that accountability should also be broadened to embrace the many stakeholder groups that participate directly and indirectly in achieving corporate purposes (see e.g. McDonald and Putty, 1979; Coleman, 2007). These participants include shareholders, employees, suppliers, customers, creditors, communities and the general public (Solomon, 2010). Freeman et al. (2010) argue that the early proponents of the stakeholder concept focused on 'primary' stakeholders[51], i.e. those people without whose support the organisation would cease to exist. However, according to this author, this approach was perceived to be narrow as it excluded a number of stakeholder groups, including environment and society. This realisation was the first step towards a broader view, and the conceptualisation of a 'stakeholder' now typically includes suppliers, customers, stockholders, employees, the media, political action groups, communities, governments and the environment (Mallin, 2009; Freeman et al., 2010; Solomon, 2010). Evan and Freeman (1993) propose that corporations should act for the benefits of its stakeholders (the principle of "corporate legitimacy") and must balance stakeholders' and

[51]Primary stakeholders would include employees, suppliers, customers, financial institutions and the local communities in which the corporation conducts business.

corporate interests (the “stakeholder fiduciary” principle). Each version of the theory has its own implications for corporate governance structures and monitoring mechanisms (Mallin, 2009). As will be argued in detail later in this thesis, the stakeholder notion is central to many of the governance reports to emerge in Africa, as well as the broader cultural norms of the continent (Wanyama et al., 2009).

3.4.4 Transaction Cost Economics

The term transaction cost economics (TCE) covers a broad range of phenomena across disciplines. Whilst this thesis ultimately adopts a broader stakeholder-oriented approach, many of the key ideas in TCE are relevant to organisations in the developing world, not least the mechanisms used for efficient interaction in an environment where resources are scarce. While acknowledging that there is a very thin line between agency theory and transaction cost theory, Solomon (2010) notes that despite both approaches focusing on aligning the interests of managers (agents) and shareholders (principals), agency theory employs the individual agent as the unit of analysis while TCE uses the transaction. Mallin (2009) believes TCE as a theory that: “…views the firm as a governance structure whereas agency theory views the firm as a nexus of contracts” (p. 17). Similarly, Shelanski and Klein (1995) describe TCE as trying to explain:

> “…how trading partners choose, from the set of feasible institutional alternatives, the arrangement that offers protection for their relationship-specific investments at the lowest total cost” (p. 337).

Shelanski and Klein argue that certain governance structures affect the management of transactions better than others and so TCE focuses on how the principal can be protected from the hazards associated with contracts across a range of relationships. Problems of intentionally rational behaviour (bounded rationality) and opportunism imply that agents (managers) organise transactions in their best interest and this propensity needs to be checked (Mallin, 2009; Solomon, 2010). Because the world is complex, economic agents are rational, with (in most cases) outcomes that are not verifiable and contracts that are typically incomplete (Williamson, 1979; Harts, 1995; Shelanski and Klein, 1995). According to Shelanski and Klein, the incompleteness of contracts exposes investors to hazards, and they call for appropriate governance structures to be developed to address this. The appropriateness of governance structures depends on the characteristics of the relationship. Consistent with this theme, Williamson (1984) affirms that an appropriate governance structure should minimise the costs of any conflict of interest in a relationship (as opposed to realigning incentives). In this context, Shelanski and Klein (1995) argue that TCE can be seen as the "study of alternative institutions of governance" (p. 337).

3.4.5 Stewardship Theory

Whilst agency theory has dominated modern corporate governance research, it has several purported weaknesses and limitations. For example, the analysis restricts itself to economic assumptions (Doucouliagos, 1994) and excludes a number of important organisational factors (Davis et al., 1997). Davis et al. (1997) argue that stewardship theory instead defines relationships that are based on behavioural aspects: "in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals" (p. 21). In this context, agency theory is seen as a 'fire fighting' theory whereas stewardship theory is not, because it is assumed that agents do not depart from the interests of their principals. Davis et al. (1997) argue that even where the interests are not perfectly aligned, the agent under stewardship opts for co-operation rather than defection. Coleman (2007) emphasises the distinguishing feature of stewardship theory as that of replacing: "… the lack of trust to which the agency theory refers with respect for authority and inclination to ethical behaviour" (p. 4). The similarity between the agency and stewardship theories is that they both "assume a strong relationship between the success of the organization and the principal's satisfaction" (Davis et al., 1997 p. 25), hence they both emphasise the owner's interests.

3.4.6 Theories - A Corporate Governance Implication

Despite globalisation, selecting the right lens for investigation of a particular country is difficult as corporate governance paradigms employed in practice continue to differ across nations (Berglof and Thadden, 1999; Cornelius and Kogut, 2003). Some of these differences reflect ownership patterns, business culture and the strength of the legal and regulatory systems in given countries (La Porta et al., 1997). In this context, each theory has its own implications for corporate governance (Mallin, 2009). Although each theory implies particular corporate governance institutions, Hirsch et al. (1987) argue that agency theory is the commanding paradigm underlying early corporate governance research. This assertion is manifested by the fact that in many countries - both developed and developing - companies are run primarily for the benefit of shareholders, in the context of: a commercial focus; a profitability and efficiency orientation; ownership concentrated in a few hands (with strong de facto power over management, sometimes through an executive chairman); imperfect information asymmetry; and poor protection for minority shareholders (La Porta et al., 1997).

Modern agency theory emphasises the asymmetry of information and, in this context, views corporate governance as a mechanism that limits agents' potential to engage self-serving behaviour (Jensen and Meckling, 1976; Eisenhardt, 1989; Shleifer and Vishny, 1997; Iskander and Chamlou, 2000; Roe, 2005; Fernando, 2009; Love, 2010); many governance reforms witnessed around the world intended to reduce managerial control rights are set-out on this basis. According to Jensen and Meckling (1976), agency theory is premised on the understanding that managers will not act in the best interests of shareholders unless appropriate governance structures are implemented in the large corporation. In achieving this, the board of directors has been identified as being crucially important (Tricker, 1984) and every major report devotes significant attention to its structure, balance and responsibility.

However, Solomon (2010) argues that corporate governance, being a dynamic multi-disciplinary paradigm, is more pervasive in nature and the plethora of issues it raises go beyond the ambit of the needs of suppliers of finance and perhaps requires an inter-disciplinary approach (see Babic, 2003; OECD, 2004b); even if shareholder wealth is maximised, there is no reason to assume all obligations would necessarily be satisfied. On the other hand, Harts (1995) argues that corporate governance is only necessary if there is uncertainty about some futuristic actions not specified in the initial contract; specifically, he argues that: "corporate governance issues arise wherever contracts are incomplete and agency problems exist" (p. 688).

3.5 Corporate Governance in Developed Countries

Recent decades have seen the concept of corporate governance evolve into a central theme in academic and professional debates (Burton et al., 2004, Solomon, 2010). Though in one sense not a new subject for discussion (many of the issues discussed by Berle and Means (1932) resonate with key aspects of the concept) it has seen a marked revival, particularly in developed countries, sparked by high profile governance failures around the globe (Babic, 2003). These events have forced the attention of governments, regulators, corporations, investors and the general public on to the costly repercussions of weaknesses in the corporate sector and the need to prevent these in the future (Jesover and Kirkpatrick, 2005). Although the empirical context of this thesis is based on analysis of a developing country, the debate in developed countries has influenced much of the debate in the former and is therefore examined here prior to analysis of the developing world.

The debates converge on a range of issues affecting investor protection, the roles and responsibilities of stakeholders, the powers and responsibilities of boards of directors, finance, strategic management and general company performance (Berglof and Thadden, 1999; Babic, 2003). As corporate governance underpins the debate on economic development, Berglof and Thadden (1999) argue that the preoccupation of most countries and stock exchanges is the development of corporate governance guidelines that help attract the capital needed for growth in a globalised marketplace. However, corporate governance is not only a highly relevant paradigmatic concept for countries seeking development, but is also important for nations that have attained higher levels of development (Wu, 2005). Corporate governance is a necessity for rich economies as it can induce the institutional changes required for improved economic performance; it is still receiving significant attention in developed economies including the US in this context (Shleifer and Vishny, 1997; Shkolnikov, 2002; Oman, 2003). Hill (2007) notes that apart from the philosophical differences, particularly between the US and other developed countries, there are other variations, especially concerning board structure with the single tier board prevalent in the Anglo-American model and the two-tier board more commonly-embraced in Germany, Eastern Europe, France and several other European countries. The US and the UK have predominantly dispersed share ownership patterns, with very strong institutional shareholder activism. However, Shleifer and Vishny (1997) argue that, despite the dissimilarities, developed countries in general have relatively robust corporate governance systems because they are anchored on developed governance institutions.

3.5.1 Momentum for Corporate Governance Change in Developed Countries

Most early analyses cite the neoclassic principal-agent framework as the catalyst for corporate governance developments and reforms around the world (Babic, 2003). However, over time the basis of the debate has changed in the wake of a number of events in the corporate world and general theorising regarding the role of the modern firm. A series of crises at corporate level have served to emphasise 'good' governance not only as an agency measure, but also as a tool for attracting the investment required for growth and development. Technological advances, globalisation, corporate scandals and investor activism are some of the specific events often cited as having spurred on the corporate governance debate over the past two decades **(**Berghe, 2002; Rezaee, 2007).

Charkham and Ploix (2005) pin-point the globalisation-led loosening of restrictions on the movement of capital (coupled with the increased opportunities for cross-border investment) as one of the key drivers of corporate governance reforms in developed countries. However shareholder activism, Berghe (2002) contends, has become overly influential, particularly in developed countries where the mechanism has received a lot of attention. The implication for investors is that exploring only firms (and markets) that offer a good return on investment along with effective protection for the suppliers of finance will be beneficial.

The well-publicised failures of high profile companies (and the consequential impacts on stakeholders and economies at large, particularly in developed countries) underpin the corporate governance revival and reforms in such countries. Mallin (2007)[52] describes the impact as follows:

[52]Some of the companies whose collapses have been blamed on poor corporate governance include: Barings Bank in 1995; Enron in 2001; the financial scandals surrounding the third largest food retailer in the world, Royal Ahold in 2003; the collapse of Parmalat in 2003; HIH, one of Australia's largest insurers, which became one of the biggest corporate collapses with debts of over $A5 billion and liquidation in 2001; and the China Aviation Oil Holding Company, which suffered a near collapse after losing some $US550 million on speculative oil derivatives trading in 2004. Mallin (2007) provides a fuller list.

> "These corporate collapses have had an adverse effect on many people: shareholders who have seen their financial investment reduced to nothing; employees who have lost their jobs and, in many cases, the security of their company pension, which has also evaporated overnight; suppliers of goods and services to the failed companies; and the economic impact on the local and international communities in which the failed companies operated" (p. 1).

Shkolnikov (2002) argues that 'bad' or 'lacking' corporate governance not only leads to corporate scandals, but has far reaching implications; this suggestion is echoed by Wanyama (2006) thus:

> "If any company is not properly managed and it collapses or gets a problem, the effect of the corruption or poor management goes beyond the managers" (p. 56).

This line of thought is consistent with the most recent scholarly literature on corporate governance (see e.g., Arun and Turner, 2009; Claessens and Bruno, 2010). Financial scandals and corporate failures have resulted in the emergence of new laws and regulations (Obanida, 2000; Hill, 2005; De Nicolo et al., 2008; Claessens and Bruno, 2010); some countries have vigorously pursued the mandatory regulation route (for example, the US), while others have preferred a voluntary approach (for example, the UK) (Claessens and Bruno, 2010). Irrespective of approach, however, the failures identified inadequacies in extant corporate governance systems that needed addressing. Rezaee (2007) argues that corporate laws and regulations in the US have become the drivers of corporate governance as they determine how companies are established, define shareholder rights and establish fiduciary duties of directors and officers.

3.5.2 Properly Run Firms as Drivers of Wealth

The concept that 'properly' run firms are the drivers of wealth has influenced developed countries to strive towards reforming their stock exchanges and firms, making them more attractive to both domestic and international investors by ensuring protection against risk (Ireland et al., 2001; Hart et al., 2003). Markets and firms that achieve this objective are likely to attain a huge competitive advantage over others (Hart et al., 2003). In this context, Enriques (2009) argues that:

> "Poor investor protection mechanisms and institutions are a heavy competitive disadvantage in the competition for investors" (p. 7).

The theory is quickly being absorbed in developing nations and Africa in particular. Okike (2007) writing about corporate governance in Nigeria, states that:

> "In recognition of the vital role that the modern corporation plays in the economic development of any nation, and the need to ensure good governance of these corporations, there has been an upsurge in global initiatives to provide governance principles for the effective management and control of these corporations" (p. 173).

Consistent with the notion, the IFC (2008) EU Internal Market Commissioner Frits Bolkestein said that:

> "Company law and corporate governance are right at the heart of the political agenda, on both sides of the Atlantic. That's because economies only work if companies are run efficiently and transparently. We have seen vividly what happens if they are not: investment and jobs will be lost; and in the worst cases, of which there are too many, shareholders, employees, creditors and the public are ripped off" (p. 3).

There is overwhelming scholarly evidence to suggest that proper governance of corporations has become crucial[53] in terms of wealth creation. The following three quotations support this concept:

> "… proper governance of companies will become as crucial to the world economy as the proper governing of countries" (Wolfensohn, 1999).
>
> "... over the last century the corporation has become society's principal agent of economic activity and development" (Oman, 2003 p. 7).
> "There is… a need to stress the importance of individual companies to every country's economy since prosperity so largely hinges on the way they are run" (Charkham and Ploix, 2005 p. 1).

Similarly, Bottomley (2007) points out that:

> "Corporations are so much a part of our lives that their role is usually taken for granted, going unnoticed until the occurrence of some dramatic event brings it to our attention…. Principally it is corporations that supply or control our access to goods and services, work and leisure, knowledge and information. The activities of corporations' shape or influence national economies. …. They contribute to the provision of social welfare and national development, either in partnership with or by taking over from the work of governments" (p. 1).

[53]For example, Oman (2003) suggests that: "Institutions of corporate governance facilitate and stimulate the performance of corporations, the principal forces behind economic wealth in society. The institutions of corporate governance ensures corporate conformance with investors' and society's interests and expectations by limiting the abuse of power, the stealing or siphoning-off corporate assets, the moral hazard, and the significant wastage of corporate controlled resources" (p. 3).

Corporations in developed countries are widely viewed as engines for wealth creation (Ireland et al., 2001; Hart et al., 2003). While Charkham and Ploix (2005) applaud this theory, they stress that the role of individual firms should not only be seen as that of maximising returns on investment, but also as an element of social cohesion. The advent of globalisation has led to increases in firm size through cross-border mergers and acquisitions, with resulting changes in ownership structures that Blowfield and Murray (2008) cite as some of the key drivers of corporate governance reforms. Having outlined the key issues surrounding and arising from the governance debate in the developed world, the discussion now turns to developing nations, the site of this thesis's empirical research.

3.6 Corporate Governance in Developing Countries

Berglof and Thadden (1999) argue that the implications and importance of corporate governance varies according to national levels of development, with Oman (2003) suggesting that: "The quality of corporate governance matters greatly for developing countries" (p. v). Scholarly literature appears to suggest that a need for 'good' corporate governance is more pressing for - and matters most to - countries in transition rather than those already developed (Babic, 2003; Oman, 2003; McGee, 2008; Siddiqui, 2010). This argument is based on the premise that developing countries have been relatively slow to establish the institutions and infrastructure needed to facilitate meaningful corporate governance systems (Wanyama et al., 2009). Although most developing countries have made significant strides in this regard, Dallas (2004) argues that the concept is still in its nascent stage, although Pascal (2002) acknowledges that conceptualisation of corporate governance in developing countries is inevitably much more complicated due to the many challenges that characterise these nations. In particular, developing countries have been characterised as having: weak institutions; poor infrastructure; complicated tax systems; confusing accounting standards; absence of the rule of law; politicisation of the business sector; weak enforcement agencies and frail stock markets, all of which create challenges for those concerned with improving corporate governance practices (Pascal, 2002; Babic, 2003). While corporate governance reforms in most developed countries revolve around agency theory (Gilson, 1996; Bushman and Smith, 2001; Vinten, 2001), in developing countries - where ownership and control are predominantly concentrated - (La Porta et al., 1997), reforms are often couched in terms of a multiplicity of issues (Wanyama et al., 2009); for example, using Bangladesh as a case study, Siddiqui (2010) finds that the challenges affecting corporate governance development in emerging countries include:

> "high ownership concentration, reluctance of the corporate sector to raise funds through the capital markets, lack of shareholder activism, availability of bank financing, and poor enforcement and monitoring of regulations" (p. 1).

The numerous idiosyncrasies that challenge corporate governance in developing countries makes it difficult for such nations to embrace the theories that have influenced the debate in developed countries (Babic, 2003). However, Shleifer and Vishny (1997) argue that the non-existence of corporate governance mechanisms in developing countries could be responsible for the insurmountable developmental challenges that emerging countries face. On the other hand, Plender (1999) characterises the World Bank and the OECD as having prescribed corporate governance standards for the developing world that have been shaped in (and for) the richest nations on the planet. Plender finds this practice politically contentious and noxious. Notwithstanding the unsuitability inherent in transplanting corporate governance templates designed for developed markets, the World Bank and OECD have established institutionalised programmes that acknowledge and identify problematic specificities such as the economic, social, legal and cultural circumstances underlying individual developing countries' corporate governance weaknesses[54].

[54]Cooper (2007) notes that: "Given the wide range of countries categorized as 'developing countries' that are at various stages and levels of development; their different legal traditions; their diverse cultural practices; the existence of capital markets in some countries and the absence of capital markets in others; the presence of credit rating agencies and credit bureaux in some countries but not in others; the several forms of corporations existing in almost all developing countries - such as State-owned enterprises (SOEs), publicly-

3.6.1 Drivers of Corporate Governance in Developing Countries

Although a host of theory-driven rationales cite the separation of ownership and control (along with corporate failures) as the major drivers of governance development around the world (e.g. Babic, 2003; Mallin, 2007; Solomon, 2010) for developing countries, the need for reform in this area derives from a wider range of factors, including pressure from international (donor-led) economic reforms as well as more general development aims (Vaughn and Ryan, 2006; Tsamenyi and Uddin, 2008). A desire for economic prosperity, coupled with integration into the global economy, has ranked highly amongst the catalysts for corporate governance change in the developing world (Tsamenyi and Uddin, 2008).

Arun and Turner (2009) argue that the demands of the new world order espoused by globalisation envisage corporate governance as an integration tool; debates on corporate governance in many developing countries are therefore inescapably affiliated to the opportunities for economic development, with globalisation ranking among the top drivers. Arun and Turner also contend that as developing countries liberalise their economies, corporate governance standards are playing an important role in strengthening the regulatory platform of the private sector. The protection of private owners and consumers is a common theme in the developing nation literature, with calls for governance - particularly in terms of legal and regulatory frameworks - featuring regularly (Obanida, 2000; Arun and Turner, 2009). Arun and Turner pin-point poor corporate governance mechanisms as having led to the financial crises in South-East Asia and Brazil, events which illustrate that developing countries are not immune to corporate scandals and failures; corporate governance, clearly matters therefore, regardless of a country's level of development. Developing countries, characterised by weak capital bases often exhibit heavy dependency on external financing

listed corporations, cooperatives, closely-held corporations, and family-owned corporations; one must be careful, as always, not to generalize" (p. 2).

(Mitchell, 2003) and robust corporate governance practices become particularly important in this context (Siddiqui, 2010). As developing countries compete for external capital, Oman (2003) argues that the need for transparency and accountability has become a major driving force for corporate governance. In the light of these arguments, the present chapter proceeds by examining the literature on governance in the corporate sector of developing nations, first by examining those pertaining to emerging nations outside Africa and then detailing studies in the continent itself**.**

3.6.2 Corporate Governance in Developing Countries - Outside Africa

Ikonnikov (2002) identifies corporate scandals in Russia and the Asian financial crisis as some of the major catalysts for governance improvements in the developing world. Similarly, Parker et al. (2008) believe the quest for increased investment in developing countries has resulted in massive privatisation programmes as part of a series of economic reforms that prioritise sound governance practices. A comparative overview of corporate governance in Eastern European countries[55] by the OECD revealed that the current state of corporate governance in the region has been shaped by the process of transition from planned to market economy (OECD, 2004a) and it is to this region that the discussion now turns.

3.6.2.1 Eastern Europe

Desired membership of the European Union has been cited as one of the main influences on corporate governance change in the developing countries of Eastern Europe (Akokpari, 2004; McGee, 2008). Good governance is indeed a fundamental requirement of EU

[55]Defined by the OECD as: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Ukraine and Uzbekistan.

membership[56], with McGee (2008) arguing explicitly that: “The EU integration process will serve as a source of constant and steady pressure to improve corporate governance” (p. 14-15). However, Mallin (2007) cites the transition from state-owned enterprises to public corporations (where corporate governance is generally expected to be better) during the dis-integration of the USSR into constituent countries as the major push for good governance reforms[57]. Mallin (2007) argues that the level of corporate governance in the region was, to a large extent, associated with the method of privatisation used and the ultimate ownership structure resulting. Dominant ownership varies across countries in the region with significant degrees of state leverage, although Berglof and Pajuste (2005) argue that the trend appears to be shifting towards private ownership. With globalisation and the need to attract direct foreign investment providing other pressures for reform in the region (Dallas, 2004; McGee, 2008), the debate about the need for corporate governance improvements in developing economies has reached an all-time high.

3.6.2.2 The Asian financial crisis

The 1997-98 Asian financial crisis dramatically exposed governance and institutional deficiencies in the region’s corporate sector (Warner 1998; IMF, 1998). In a cross-firm analysis of the impact of corporate governance on the East Asian financial crisis, Mitton (2002) notes that: “Weak corporate governance has frequently been cited as one of the causes of the East Asian financial crisis of 1997 to 1998” (p. 215), while Jonson and Shleifer (2000) argue that: “Weak corporate governance ... appears to make companies and countries vulnerable to large collapses” (p. 113). The Asian crisis is the most widely cited blueprint of corporate governance failure in developing countries (Dallas, 2004). In terms of specific

[56]Membership in the EU is based on meeting conditions such as democratic reforms and other economic targets. Countries that have undertaken reforms and been admitted to EU include: Cyprus; the Czech Republic; Estonia; Hungary; Latvia; Lithuania; Malta; Poland; Slovakia; and Slovenia (Akokpari, 2004).

[57]According to Mallin (2007), under the command economy in USSR companies were not under pressure to make profits because their objectives were defined not in those terms, but instead in terms of socialist goals such as full employment.

causes, Shkolnikov (2002) holds "opaque market regulations" responsible for the Asian crisis, while Corsetti et al. (1998) cite inappropriate micro-economic policy and banking sector behaviour[58]. However, Johnson et al. (2000), La Porta et al. (1998) and Mitton (2002) all point to (de facto) corporate governance deficiencies[59] as being critical contributors to the extent of the problems.

3.6.2.3 Latin America

Although the region has not experienced the generalised wave of corporate governance shocks and failures that have been felt across much of the globe, Chong and López-de-Silanes (2007) argue that the impact and lessons of international corporate governance failures should act as a wakeup call for the region[60]. Chong and López-de-Silanes (2007) contend that, as in other developing countries, corporate governance reforms have taken centre stage in Latin America with major drivers being the spill-over effects of failures in other regions and the competition for scarce capital in the globalised economy. Similarly, Bedicks and Arruda (2006) point to globalisation, technological change, defined control, concentration of ownership and the need to attract investment as some of the drivers of governance changes. With the exception of Chile, capital markets in Central and South America have not performed as well as those in other developing regions (Chong and López-de-Silanes, 2007). However, initiatives such as the Latin American Institute of Corporate Governance (ILACG) and the Latin American Corporate Governance Network (LACGN) (with the support of the International Financial Corporation and the OECD)[61] have been influential in the promotion of best practice in the region through the exchange of

[58] Johnson et al. (2000) argue that: "The Bangkok Bank of Commerce is a well-documented example of expropriation by managers that worsened as the bank's financial troubles deepened" (p. 142).

[59] For example, Mitton (2002) notes that weaknesses in legal institutions and shareholder rights enforcement led to loss of investor confidence in the market, resulting in lower capital inflows and higher outflows.

[60] Although Mallin (2007) points to the adverse effects of the globe economic down turn of the 1990s as one of the reference points for increased demand for more transparency and accountability in the region.

[61] The OECD's white paper on corporate governance in Latin America is an official report published in 2003 on regional corporate governance which stresses, among other things, the importance of good corporate governance in the Latin American region (Bedicks and Arruda, 2006).

research data and knowledge as well as the strengthening of local institutions (Bedicks and Arruda, 2006). For example, in 2000 Chile revised its company law framework with a view to strengthening corporate governance while in 2004, Argentina published its first code of corporate governance and Brazil revised its code to cover audit, risk management and training of boards (Solomon, 2010).

3.7 Corporate Governance in Africa

Inspection of scholarly literature reveals that while much has been written about corporate governance in developed countries, reference to Africa remains fragmented and limited (Rossouw et al., 2002; Okeahalam and Akinboade, 2003; Visser, 2006; Solomon, 2010). Although little attention has been devoted to the continent, Agaye and Gwilliam (2008) confirm that country-specific studies are beginning to emerge and these now include: Botswana (Josiah et al., 2010); Ghana (Mensah, 2003); Zimbabwe (Muranda, 2006; Bondamakara, 2010); Kenya (Gatamah, 2001; Mwaura, 2003); Nigeria (Wallace, 1990; Okike, 2007); South Africa (Rossouw, 2002, 2005); and Uganda (Wanyama, 2006; Wanyama et al., 2009). However, as Wanyama et al. (2009) argue, 'Western' focused analysis of corporate governance had virtually monopolised the literature in the area until recently; this neglect has led to a lack of knowledge and appreciation for corporate governance and its impact on Africa (Okeahalam and Akinboade, 2003). Clearly, investigations of whether or not Africa requires a different system from that obtaining in developed countries requires detailed understanding of the African context, yet this issue has rarely been examined (Wanyama et al., 2009). Moreover, the scant literature on Africa makes it difficult to tease out common theoretical themes that influence corporate governance reforms on the continent. Lungu and Kapena (2010) argue that the neo-classic model of corporate governance, based on the separation of ownership and control, is not applicable to Africa, a continent characterised by the dominance of state-controlled enterprises whose ownership and management structures derive from a single source, namely the government. Indisputably, extant literature on Africa posits the de facto circumstance that corporate governance practices in Africa are highly influenced by the continent's distinct cultural, political, historical, legal and regulatory considerations, making comparison with developed nations problematic (Wanyama, 2006; Rezaee, 2007; Wanyama et al., 2009).

3.7.1 Africa's Demand for Corporate Governance

Africa has its own unique political, economic and institutional arrangements, distinctive from other regions of the world (Visser, 2006). This idiosyncratic context demands a broad corporate governance perspective that goes beyond the narrow view of inter-relations between managers and the providers of capital (Ikonnikov, 2002; Tsamenyi and Uddin, 2008). While, as discussed earlier in this thesis, there is no universally-accepted definition of corporate governance, African attempts to address the notion (e.g. the King Report) appear to favour an all-inclusive approach that balances the interests of shareholders with those of other stakeholders, including the community in which corporations reside (Okeahalam and Akinboade, 2003; Rossouw, 2005). As the political landscape across the continent begins to change for the better, with a significant reduction in the extent of political conflict (both internal and external), many Africans now believe that conditions are favourable for development (Ong'ayo, 2008). In addition, a realisation of the important role that good corporate governance can play in charting a developmental agenda for the continent has emerged (Kilgour, 1998; Rahaman, 2010). Kilgour (1998) argues that Africa must look beyond its colonial past for solutions to the current problems and, to this effect, NEPAD has identified corporate governance as one of the key challenges that needs serious attention in the attempt to improve Africa's economic fortunes (ECA, 2002; Amoako, 2003). The ECA (2002) put forward a resolution (agreed by the Heads of State and Government

Implementation Committee (HSGIC) of the New Partnership for Africa's Development), at its first meeting in October 2001 regarding key priorities, namely:

> "… to prioritize the enhancement of good governance and to seek the assistance of the ECA, to lend its expertise to develop guidelines for promoting good economic and corporate governance in Africa. Good economic and good corporate governance are fundamental preconditions for the renewal of Africa" (p. 5).

Investors around the globe are increasingly focusing on corporate governance in their investment decisions (Nganga et al., 2003); therefore, the resolution to prioritise corporate governance in Africa can be seen as an attempt to make the continent attractive for investment (Lungu, 2005). For Lungu, the impediments to Africa's development (such as macroeconomic stability, poverty reduction, accountability and transparency) are all a result of 'bad' governance.

3.7.2 Corporate Governance Drivers in Africa

The contextualisation of corporate governance in Africa has not only been applauded by its citizens, but also by partners such as aid donors and the many multinational corporations who operate on the continent, some for a long time (Rwegasira, 2000). The drivers of corporate governance in Africa stretch beyond the problematic separation of ownership and control that provide the context for reforms in most developed countries. Instead, corporate failures, African nations' quest to attract finance for growth, international donor-led economic reforms, integration into the global market and the postulated positive correlation between corporate governance and development are some of the major drivers of change in the continent (Wanyama et al., 2006).

Scholarly literature highlights a positive correlation between corporate governance and development (World Bank, 1981; World Bank, 1989; Kilgour, 1998; Ndulu and O'Connell, 1999; Kaufmann et al., 1999; ECA, 2002; Amoako, 2003; Okeahalam and Akinboade, 2003; Mitchell, 2003; Akokpari, 2004; NEPAD, 2007). This association, coupled with the private sector's increasing need for capital investment, has spurred many African countries into the search for financial resources outside internal boundaries, thereby pushing to the fore the need for better corporate governance practices (Amoako, 2003; Okeahalam and Akinboade, 2003; Akokpari, 2004; NEPAD, 2007). Some scholars characterise that the proliferation of corporate governance in Africa as being driven more by a search for legitimacy than by economic imperatives (Siddiqui, 2010). However, Chulu, (2006) contest that a number of countries on the continent engage in major corporate governance reforms to 'excite' donors when there is pressure to solicit foreign direct investment from the developed world. Similarly, investigating corporate governance in developing countries, Cooper (2007) argues that African leaders want to conceptualise corporate governance as a tool for tapping into the pool of financial resources both on domestic and international markets. Cooper argues that Africa's Peer Review Mechanism (APRM) was inspired by this factor.

3.7.2.1 Corporate Failures in Africa

Wanyama et al. (2009) argue that while reporting of corporate governance failures in Africa has taken place, the continent has not been spared the type of problems evident in the world's richest nations. For example, between 1991 and 1994, 34 Nigerian banks collapsed (Lindgren et al., 1996); 26 went into liquidation in 1998 alone (Ogowewo and Uche, 2006). In Zambia itself, nine banks were closed between 1995 and 1998 (Maimbo, 2002a) and in Kenya, 2 local banks and 10 non-bank financial institutions (NBFIs) were shut or taken over between 1984 and 1989 with a further 5 local banks and 10 NBFIs taken over by the Central Bank of Kenya (CBK) in 1993/94 (Brownbridge, 2002). In 1999, four banks collapsed in Uganda (Wanyama et al., 2006). The few scholarly articles on corporate governance in Africa (e.g. Visser et al., 2006) appear to suggest that while corporate governance failures in developed countries such as the UK and the US have been reported and analysed in great detail, Africa has yet to document its own failures (Wanyama et al., 2009). Such experiences, Wanyama et al. argue, should serve as a lesson from which other countries can learn.

3.7.2.2 Globalisation and the Scramble for Investors

The onset of globalisation[62], with unlimited movements of capital across borders, accelerated the need for corporate governance reforms in developing countries (Oman, 2003). For example, Armstrong et al. (2005) note that corporate governance developments in South Africa were largely driven by the country's exposure to globalisation in the post-apartheid era. Globalisation has the propensity to escalate competition across borders; significantly complicating the firms' competitive environment (Hitt et al., 2007) making it difficult for countries with poor governance practices to compete favourably (Lewis, 2003). As a result, global forces, when combined with technological advances, may lie behind many of the corporate governance reforms seen not only in Africa, but the world over (Berghe, 2002; Charkham and Ploix, 2005; Rezaee, 2007). Just like other developing countries, corporate governance in African nations is mostly being driven by the scramble for scarce investors (Mensah, 2002) in the new global capital markets**.** While many scholars believe Africans should determine their own future by exploring home-grown solutions to its plethora of problems, real investment issues cut across the globe (Katito and Aggad, 2009). Africa's reforms are both economic and political with the latter contestualised in multi-partism which allows more citizens to participate in political activities and reign in irresponsible governments (Ndulu and O'Connell, 1999; Oy'ango, 2008). Economic reforms, on the other hand, have focused on privatisation to surrender the mis-managed state-owned enterprises to private owners (Josiah et al., 2010).

[62]According to Hitt et al. (2007), a global economy is one in which goods, services, people, skills and ideas move freely across geographic borders

3.7.2.3 Privatisation

Privatisation's success or failure is largely dependent on the quality of the country's institutional framework, particularly its corporate governance systems (Dyck, 2001; Ayogu and Fosu, 2002; Josiah et al., 2010). Variability (and weaknesses) in extant corporate governance practices underlie the problematic nature of privatisation in most of the developing world, including Africa (Denis and McConnell, 2003; Bekaert and Harvey, 2003; Klapper and Love, 2004; Johnson and Shleifer, 2004). Africa's poor corporate governance record, coupled with a wholesale privatisation process that takes no regard of indigenous particularisation, further complicates privatisation programmes on the continent (Josiah, 2010). Boubakri et al. (2005) and Shleifer and Vishny (1997) contend that the weak governance mechanisms and structures affect privatised companies adversely, particularly in developing countries; specific issues include legal structures, security of property rights and the enforcement of contracts. Privatisation in seclusion, Parker and Kirkpatrick (2005) argue, does not consummate its theoretical argument because it lacks the facets of governance; in this context, privatisation is viewed as one of the drivers of corporate governance in developing countries.

3.7.3 Corporate Governance Initiatives in Africa

Since the realisation of the importance of corporate governance on the continent, Africa has experienced a number of reforms in the quest to contextualise the governance paradigm. According to Rossouw (2005), the most noteworthy initiatives responsible for Africa's corporate governance developments include, among others, those emanating from: the World Bank (WB); the International Monetary Fund (IMF); the United Nations Development Programme (UNDP); the Commonwealth Association for Corporate Governance (CACG); the Organization for Economic Cooperation and Development (OECD); the Pan-African Consultative Forum on Corporate Governance (PACFCG); the

(South African) King Report on corporate governance and organisations; as well as professional bodies such as the institutes of directors and professional accountancy bodies[63].

3.7.3.1 The New Partnership for African Development (NEPAD)

The interplay between governance and development orchestrated the establishment of the New Partnership for African Development (NEPAD), a development programme under the auspices of the African Union (AU) and designed to address Africa's developmental challenges, including the crisis of governance (Akokpari, 2004). Top of NEPAD's agenda are economic, corporate and political governance as well as peace and security (Akokpari, 2004). To monitor progress on governance issues, NEPAD conceptualised Africa's Peer Review Mechanism (APRM) by which Africa's progress towards good governance is assessed[64]. Although NEPAD has been branded a 'capitalist agglomeration' with little consultation (Bond, 2003; Akokpari, 2004), the programme has led to the dispensation of Overseas Development Aid (ODA) and Foreign Direct Investments (FDI) to the continent.

3.7.3.2 The King Report

The King Reports (I, II and III) on corporate governance in South Africa has been the fulcrum for corporate governance reforms in Africa as a whole and are viewed positively by many Africans as it represents a home-grown initiative which blends 'conventional' standards and nations into Africa's cultural context (Okeahalam and Akinboade, 2003; Gstraunthaler, 2010). For example, the King Report renders priority to discipline, transparency, independence, accountability, responsibility, fairness and social responsibility (IoDSA, 2002). According to Solomon (2010)**,** the first King Report is responsible for making formal the process of corporate governance reform in Africa, and its stakeholder-

[63]Others include the International Finance Corporation (IFC), the African Development Bank (AfDB), the Global Corporate Governance Forum (GCGF), the Economic Commission for Africa (ECA), and the variuos UK reports and codes.

[64]The assessment is also used as a benchmark for attracting aid (Akokpari, 2004).

oriented approach has been identified as helping distinguish its position on governance reform. The author contends that enshrining a code of business ethics for companies and their stakeholders makes the King Report one of the most forward-looking codes. While the King Report has been recognised internationally as an all-embracing code on corporate governance (PWC, 2002), its stance that: "The stakeholder concept of being accountable to all legitimate stakeholders must be rejected…." (King Report, 2002 p. 5) raises a number of questions as to its earlier endorsement of a social dimension and inclusive corporate governance position (Solomon, 2010). It is not clear, how the King Report intends to strike a balance between these two conflicting paradigms and embrace its commitment to a broad-based participative corporate governance code in the interest of a wide range of stakeholders.

3.7.3.3 OECD Principles of Corporate Governance

Consistent with other corporate governance standards, the ultimate goal of the OECD principles of corporate governance is that of economic prosperity, viz:

> "…the OECD shall promote policies designed to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries" (OECD 1999, p. 2).

Jesover and Kirkpatrick (2005) described the OECD principles as a reflection of the global consensus as regards the relationship between corporate governance and economic vitality and stability. The OECD's basic principles on corporate governance have been recognised as an international benchmark and are widely adopted and applied across continents, including in countries outside the OECD (Jesover and Kirkpatrick, 2005; Barker, 2010). Nganga et al. (2003) notes that the CACG and the OECD principles of corporate governance have featured strongly in many African countries' codes. The explanation for the claimed universal applicability of the OECD principles is their assumed cross-border applicability since they were not designed for a specific stock exchange or country[65]. Fernando (2009) argues that their general nature makes them useful as they can be modified easily to fit the local cultures and markets:

> "…the OECD principles represent the minimum standard that countries with different traditions could agree upon, without being unduly prescriptive. In particular, they are equally applicable to countries with a civil and common law tradition, different levels of ownership concentration, and models of board representation" (Fremond and Capaul, 2002 p. 9).

However, Lu and Batten (2001, p. 1) argue that standards set for a wide spectrum of countries with different cultures and varying levels of economic and legal development makes the standards vulnerable. Clarke (2007) takes a similar view, arguing that: "To assume that all countries will adapt to the same corporate governance structures is unrealistic" (p. 265).

Clarke (2007) argues that the OECD underestimated the difficulties of deriving a set of standards that can fit nations at all stages of economic and legal development, without embracing issues that are particular to certain countries. Africa's cultures, for example, have a major impact on corporate governance frameworks, in both behavioural and normative aspects (see Wanyama et al., 2009). In this respect, cultural and social differences and the historically contrasting legal, financial and institutional structures are some of the most challenging barriers to application of the OECD standards across Africa.

3.7.3.4 Commonwealth Association for Corporate Governance

There is a stronger need than ever for the harmonisation of national initiatives to deal with cross-border corporate governance problems (CACG, 1999c; IFC, 2008). One of the initiatives aimed at promoting corporate governance practices at the international level is the establishment of the Commonwealth Association for Corporate Governance, which notes its

[65]For example, the US reforms contained in the Sarbanes-Oxley Act 2002 were a specific response to local issues which, Ribstein (2002) argues, closely tracked the contours of America's failures such as Enron and WorldCom.

commitment: "… to a uniform approach on corporate governance issues internationally" (CACG, 1999b, p. 4). The shift towards regional or cross-border corporate governance, Charkham and Ploix (2005) argue, is premised on the belief that companies face problems that are universal in nature. The Commonwealth has a diverse membership, including countries with seemingly very different cultural and political dimensions. The CACG offers training and technical support to a number of African countries, including Zambia, Botswana, Mozambique, Mali, and Gambia (Okeahalam and Akinboade, 2003). This effort has helped a number of countries in drafting corporate governance codes, but a central concern remains regarding the assumption that all countries operate at the same level of legal, social and economic developments; perhaps as a result, the standards appear to have an Anglo-American corporate governance tone (Shkolnikov, 2002).

3.7.4 Nature of Corporate Governance Practices in Africa

In Africa, extant literature suggests that the term 'corporate governance' is perceived and discussed in terms far broader than those of the neoclassical model, where the separation of management and ownership dominates (Mensah, 2003). Africa's unique cultural, political, accounting, social and ethical factors attract serious consideration as they underpin debates regarding corporate governance reforms across the continent (McGee, 2008; Wanyama et al., 2009). Africa's historical experiences are dramatically different from other continents, and Visser et al. (2006) argues that understanding of this allows for more light to be shed on the systems that underpin the corporate sector. According to Nganga et al. (2003), imported corporate governance models - especially as practiced by multinational corporations - have yielded few benefits for Africa. However political instability, coupled with the weak legal and regulatory frameworks that manifest most African countries, suggests according to Cooper (2007), a general governance problem. This author suggests, therefore, that corporate governance in Africa should be viewed in the context of country-level governance.

Similarly, Mitchell (2003) argues that "It is not possible to create and run an island of good corporate governance in a sea of poor or underdeveloped public governance" (p. 22).

3.7.4.1 Corporate Governance Models - the African Perception

Most African countries face the challenge of selecting a corporate governance model that fits a complex social-economic environment. While Rwegasira (2000) disputes the superiority of any particular model in terms of support for economic performance, Rossouw (2005) argues that the all-inclusive stakeholder model is predominant in most African codes[66] because it embraces the African belief system of communal values and consensus (see Wanyama, 2006 and Solomon, 2010). Rwegasira (2000) argues that Africa needs a model that is not only development oriented, but brings together all stakeholders in unison. More specifically, the model for Africa should fit into the culture that reflects communitarian stakeholder theory (Mbiti, 1989; Gyekye, 2003) or 'ubuntu', which Mbiti (1989) translates to mean "'I am, because we are; and since we are, therefore I am'" (p. 110). Gstraunthaler (2010) points to the communitarian philosophy as an important paradigm in the African way of living and doing business, with employees' benefits often reflecting more than simple salaries and pensions. Hayes (2006) submits that companies operating in African environments characterised by overwhelming social issues must adopt a communitarian philosophy because they are under compulsion to fill gaps in social services, health and infrastructure for their employees which many governments are unable to (or choose not to) fulfil. Similarly, Angaye and Gwilliam (2008) argue that multinational companies operating in Southern Africa normally find themselves involved in the delivery of social welfare programmes in their communities; however attaining these goals in practice, Gstraunthaler (2010) argues, is difficult especially for businesses in the global economy.

[66]With the exception of Nigeria

In this context, the King Report (2002) argues that accountability to all stakeholders is unworkable in practice:

> "The stakeholder concept of being accountable to all legitimate stakeholders must be rejected for the simple reason that to ask boards to be accountable to everyone would result in their being accountable to no one" (p. 6).

However, the African model calls for regular engagement between managers and other stakeholders (OECD, 2004b; Rossouw, 2005). The OECD (2004b) maintains that while there is no single accepted model of good corporate governance, an organisation's governance principles have certain common (non-binding) elements that embrace different models. Notwithstanding this point, taking note of the diverse cultural issues across borders on the continent, the ECA (2002) encourages each African country to identify those corporate governance elements that provide a 'good fit' with its circumstances. Again though, the practicalities of normative suggestions are not straightforward to deal with; scholars have acknowledged the complexities in identifying a corporate governance model that fits a particular country in the face of cultural, historical and environmental differences (e.g. Shleifer and Vishny, 1997; Nganga et al., 2003; Mitchell, 2003; Fan, 2009). For example, Gustavson et al. (2009) questions the rationale for replicating the Anglo-American model in Sub-Saharan Africa without accounting for the cultural differences between America and Africa.

According to Mallin (2009), four theories underpin the development of corporate governance, namely: agency; stakeholder; transaction economics; and stewardship. As noted earlier, on the spectrum of theories agency lies on one extreme (narrow) end while the stakeholder analysis occupies the other (broad) extreme. However, and notwithstanding this generalisability, corporate governance in practice is strongly influenced by factors such as legal and regulatory institutions, levels of development and societal culture (Wanyama et al., 2009). Stakeholder theory, which views the corporation as a social entity with a wider responsibility, seems to fit into the African's way of living and doing business (Wanyama, 2006). However, the first King Report (1994) acknowledges inherent complexity in any corporate governance system that attempts to satisfy the needs of many different stakeholder groups. Perhaps as a result of this reality, the question of whether a country should contextualise a particular model or leave it to the uninterrupted mechanisms of market forces to resolve, remains controversial and subject to debate (Rwegasira, 2000).

3.8 Corporate Governance Challenges in Africa

In Africa, where the root cause of corporate governance difficulties is more than institutional, Fan (2009) argues that transplanting the systemic approaches of (well-structured) Western countries may not be the right cure for the many challenges facing the corporate sector on the continent (Wanyama et al., 2009). Fan's view is that corporate governance failures in developing nations are a side effect of institutional weaknesses, hence requiring a top-down approach (Wanyama et al., 2010); some of these institutions may be in the economic, legal and political spheres (see Roe, 2003). The OECD (2004b) notes that:

> "Corporate governance is only part of the larger economic context in which firms operate that includes, for example, macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory, and institutional environment" (p. 12).

However, the idiosyncratic conditions of each country in Africa provide both constraints and opportunities for corporate governance (NEPAD, 2007); these issues are now examined in more detail.

3.8.1 Africa's Peculiarities: Weak Institutional Arrangements

Amoako (2003) argues that good corporate governance requires the existence of efficient and accountable institutions, but most African countries do not yet possess these (Rossouw, 2005; Wanyama et al., 2009). African countries have a number of unique economic and political peculiarities that demand critical attention when the construction of corporate governance systems is being considered (see Kilgour, 1998; Rwegasira, 2000; Wolfensohn, 2002; Nganga et al., 2003; Rossouw, 2005). These idiosyncrasies generate a plethora of challenges including the lack of a sound legal and regulatory framework, weak enforcement of laws and a lack of commercial expertise amongst judges and lawyers (Kilgour, 1998; Wolfensohn, 2002; Nganga et al., 2003; Rossouw, 2005; Wanyama et al., 2009). Here, Brautigam and Knack (2004) assert that:

> "Poor quality institutions, weak rule of law, an absence of accountability, tight controls over information, and high levels of corruption still characterise many African states today" (p. 1).

Africa's unique socio-political features and their theoretical deviations from those underpinning 'mainstream' corporate governance analyses are fundamental to an understanding of the latter in Africa as they may offer both opportunities and challenges for alternative frameworks (Okeahalam and Akinboade, 2003). The authors argue that this does not necessarily imply a need for the development of different standards for Africa, but simply suggests designing them in such a way that they are cognisant of the specific characteristics of African states. While Rwegasira (2000) contends that failure is inevitable if governance models ignore the peculiarities of individual African countries, the ECA (2002) disputes the assumption that Africa's institutional constraints represent a rationale for abandoning corporate governance on the continent. However, notwithstanding debate regarding Africa's institutional deficiencies, interest in corporate governance appears to be gaining ground (Okeahalam and Akinboade, 2003) and this is manifested in the upsurge of corporate governance codes on the continent (Mensah, 2002; Rossouw, 2005; Wanyama et al., 2009). Common to all these analyses though is an acknowledgement of the impact of political upheaval, and this issue is now addressed.

3.8.2 Political Instability

Threats to investors arise not just from the separation of ownership and control, but also from political strife and public governance crises (Fifield et al., 2005). Political factors have been a particularly major element in African life, with implications for governance practices across the continent today (Visser et al., 2006; Wanyama et al., 2009). In this context, Ginther et al. (1995) argue that: "Minimum standards of good governance should include political stability" (p. 11) while Roe (2003) suggests that:

> "Before a nation can produce, it must achieve social peace. Factories that fail to produce because of internal turmoil or external upheaval are less valuable than those that produce smoothly. If conflict is expected, investors invest reluctantly, or not at all, and the factory is not built. Or investors search for the organisational form that minimises the chances and costs of conflict. Dampening turmoil, or insulating the firm from it, can be a strong force in shaping firms' ownership and governance" (p. 1).

While the above factors may not be serious considerations in developed countries, Roe (2003) argues that in Africa - where politics are characterised by coups, dictatorships and illegitimate governments - this factor is worth serious consideration not only for investment decisions, but for the broader analysis of corporate behaviour; in this context, Armah and Amoah (2010) define political stability to simply reflect good governance. The empirical analysis in this thesis focuses on the role of corporate governance in influencing development and Hossain (1995) specifically notes that development and good governance require effective political and legal institutions:

> "… inherent in the concept of sustainable development is the need for a political system which provides for effective citizen participation in decision making and for good governance" (p. 20).

Lack of respect for constitutional rights is one of the factors igniting upheavals in Africa, as witnessed in the recent elections in Uganda, Nigeria, Kenya and Zimbabwe[67] (Ong'ayo,

[67]Zimbabwe's recent elections were characterised by "widespread use of violence, intimidation and coercion which formed the backbone of the government's strategy to cow the electorate into supporting ZANU-PF, not support (the opposition) MDC or staying away from polling places. Opposition supporters were beaten, tortured and sometimes even killed, particularly in rural areas, by ZANU-PF youth militia and war veterans unleashed to terrorise the electorate into supporting the ruling party. These actions were taken with complicity of the police and with total impunity" (International Crisis Group, 2002 p.3).

2008; Bondamakara, 2010). For example, Uganda experienced no less than four coup d'états between 1962 and 1986 (Wanyama et al., 2006; 2009) with sub-Saharan Africa as a whole experiencing 56 military coups (excluding failed attempts) between 1956 and 1984 (Mcgowan and Johnson, 1984). By 1988, Bratton and van de Walle (1997) identified 11 countries under military oligarchies, 16 operating a plebiscitary one-party system and 13 with a 'competitive' one-party system[68]. With this pervasive political instability, it is clearly likely to be difficult to instil investor confidence, both amongst Africans and extra-continental. A high probability of a coup d'état reduces the incentives for investment (Ndulu and O'Connell, 1999); an obvious governance implication of this is that the institutions on which robust corporate governance might depend are either non-existent or weak (Wanyama et al., 2009). However, enormous strides have been made to change the African political landscape through domestic political protests, especially as people begin to understand the broader implications of 'bad' politics and the consequences of governance structures that are autocratic and oppressive (Kilgour, 1998; Ndulu and O'Connell, 1999; Obanida, 2000; Akokpari, 2004; Ong'ayo, 2008).

3.8.3 Shareholder Activism

Connelly et al. (2010) argue that firm ownership in itself constitutes both an internal and external control mechanism and these are influential de facto forms of corporate governance. Similarly, Ryan and Schneider (2002) define investor activism as:

> "…the use of power by an investor either to influence the process or outcome of a given portfolio firm or to evoke large-scale change in processes or outcomes across multiple firms through the symbolic targeting of one or more portfolio firms" (p. 555).

[68]As noted in chapter two, Zambia changed from a multi-party political system inherited from the colonial government to a one-party system through a referendum in 1972.

Implicit in this view is the notion that shareholders[69], as suppliers of finance, have an important role to play in improving corporate governance in their investee companies (Ryan and Schneider, 2002; Dai, 2007; Connelly et al., 2010). Despite much scholarly evidence consistent with this view in the world's richest nations, the concept is yet to be empirically tested to any meaningful extent in Africa. Indeed, shareholder activism on the continent is at a low point, to the extent where Nganga et al. (2003) argue that even in annual general meetings institutional investors are unwilling to take management to task. This lack of shareholder activism partly reflects the predominantly family and otherwise concentrated ownership structures common in most developing countries (Singh, 1995; Shleifer and Vishny, 1997; La Porta et al., 1999). Theoretical and empirical research indicates that the identity of large shareholders matters in corporate governance (Sarkar and Sarkar, 2000; Fidrmuc et al., 2006). Thus, a lack of business knowledge amongst most African investors may bear a significant share of the blame for the weak extent of shareholder activism therein.

3.8.4 Privatisation

The late 1990s witnessed a number of economic reforms in Africa in the shape of economic liberalisations; these were followed by a scramble for external investment as post-colonial indigenisation programmes appeared to have failed to deliver substantive development in many of the countries concerned (Ndulu and O'Connell, 1999). Most African countries welcomed privatisation as it represented a possible means for reforming pervasive indigenised economies (Stiglitz, 2008). Boubakri et al. (2005) argue that privatisation was not only the centrepiece of reform in Africa, but it had become a world-wide phenomenon and accepted model of corporate structural change[70]. The conventional rationale for

[69]Particularly institutional shareholders.

[70]"Both in the developed and developing countries, the mantra of privatisation has become 'common sense' economics, an indispensable process in development whereas the period of dominance of 'state owned

privatisation focuses on perceived enhancements to firm performance under private ownership (Jones et al., 1998[71]; Chirwa, 2001; Bortolotti et al., 2002; Shenshinski and Lopez-Calva, 2003; Boubakri et al., 2005; Josiah, 2010), as well as: the attendant reduction (or elimination) of loss burdens on the government's part (Temu and Due, 1998; Hirsch and Osborne, 2000); improved service delivery through competition (Plane, 1992; Dilger et al., 1997; Durant et al., 1998; Ugaz, 2003); better resource allocation (Megginson and Netter, 2001); and a significant positive effect on growth (Plane, 1997; Fundanga and Mwaba, 1997; Barnett, 2000). However, critics argue that a privatisation rationale focused on profitability without the consideration of other factors such as jobs, skills, pensions, income distribution and general welfare, needs re-examination to embrace the full impact of such a change in resource allocation and provision (Parker and Kirkpatrick, 2005; Josiah et al., 2010). Some commentators have specifically pointed to privatisation in Africa as being narrowly-focused and open to question (Josiah et al., 2010). In Africa, privatisation has been characterised as bringing about a loss of revenue for government (Stiglitz, 2008), benefiting the elite (Nellis, 2005) and having a negative impact on growth (Cook and Uchida, 2003; Filipovic, 2005). More generally, Josiah et al. (2010) argue that the process in Africa to date has been primarily economic crisis-driven as opposed to representing a policy with clear and unambiguous long term goals.

3.8.4.1 Privatisation and Corporate Governance

Privatisation in the African context, i.e. where weak governance institutions abound and developed capital markets (as well as information about the economy) are lacking, differs from conventional (generally Western) conceptualisation (Bos, 1987; Ariyo and Jerome, 1999; Josiah et al. 2010). Boubakri et al. (2005) argue that "… unlike developed countries,

enterprises' in developing countries has been portrayed very much as 'politics' imposed over economics" (Paliwala, 2000).

[71] Jones et al. (1998) analysed 81 privatised companies in Cote d'Ivoire and found that newly-privatised companies were more profitable in private hands.

many developing countries lack an established institutional framework for efficient corporate governance" (p. 769). Privatisation poses a number of challenges in countries with weak governance institutions and Wu (2005) holds this factor responsible for the plunder of resources that regularly occurs during privatisation (Black et al., 2000; Stiglitz, 2008). Strong corporate governance practices can support the privatisation process and level the playing field by setting up rules and regulatory frameworks for the newly-privatised companies (Pascal, 2002). In the absence of this platform, the new enterprises may struggle in a global economy dominated by well-established (and governed) companies and hence become economically vulnerable and destined for failure (Boubakri et al., 2005). However, the presence of independent market regulators should improve de facto governance standards and build investor confidence and investment (Josiah et al., 2010).

3.8.5 Corruption

Corruption is endemic in Africa and has led not only to the loss of colossal sums of money meant for developmental programmes, but also the dwindling of donor aid to the continent (Hussein, 2005); this author notes that:

> "the AU estimated in August 2004 that Africa loses US$148 billion to corruption annually, or 25% of the continent's gross domestic product (GDP)" (p. 3).

Political sensitivities and legal inconsistencies have made the definition of corruption controversial; as Nahamya (1995) points out: "…there is quiet clearly no single accepted definition of corruption…" (p. 402). Despite differences in definitions and interpretations, corruption essentially entails the abuse or misuse of public office for selfish and personal gain (Rose-Ackerman, 1978; Wu, 2005) which undermines good governance (Nahamya 1995; Matenga, 1998; Hussein, 2005). Rampant corruption has been adduced as one of the main constraints to trade and development in most African countries (Mensah et al., 2003). While corruption is a worldwide problem, it has made attracting the levels of capital relevant for sustainable growth particularly challenging in Africa (Nahamya, 1995; Matenga, 1998; Hussein, 2005).

Corruption is associated with 'bad' governance, which itself is a characteristic of most poor countries (Shkolnikov, 2002; Wu, 2005). However, Shkolnikov recognises the controversies and debates surrounding the concept, arguing that: "whether they are corrupt because they are poor, or they are poor because they are corrupt" (p. 2) is an important question. Because corruption is a menace in all sectors of the economy, Shkolnikov (2002)[72] argues that improved corporate governance mechanisms have the potential to eliminate opportunities for corrupt activities.

3.8.5.1 Corruption and Corporate Governance

Robust corporate governance systems can expedite economic objectives through the provision of a conducive investment climate, the reconstruction of governance institutions, improving market conditions and the overall eliminating of opportunities for corruption (Shkolnikov, 2002). In this context, Shkolnikov suggests that:

> "Realisation of the benefits of corporate governance, especially in combating corruption has led to the increased attention to the issue in every part of the world" (p. 3).

In addition, Shkolnikov (2002 posits that Africa's opaque political systems - with barely any checks and balances on public accountability - make the continent fertile for corruption. The author further argues that:

> "Corporate governance is a critical focal point in creating safeguards against corruption and mismanagement, while promoting fundamental values of a market economy in a democratic society. These values include accountability, transparency, rule of law, fairness, responsibility, and ownership rights" (p. 10).

[72]"…by demanding transparency in corporate transactions, in accounting and auditing procedures, in purchasing, and in all of the myriad individual business transactions corporate governance attacks the supply side of the corruption relationship. Corruption drains companies resources and erode competitiveness driving away investors" (Shkolnikov, 2002 p. 5).

The central theme of corporate governance is that of promoting accountability, transparency and fairness; in this regard, the notion has been suggested as having great significance as an anti-corruption tool (Wu, 2005).

3.8.6 Globalisation

On-going globalisation in real and financial asset markets has reduced trade barriers, increased cross-border interaction and raised the levels of competition faced by firms and nations at a global scale (Daniel, 2004; Rezaee, 2007). Standard free-market economic thinking and theory suggest that it would be right to expect all countries to benefit from globalisation (Krugman and Venables, 1995). However, rather than benefiting all nations, the latter authors assert that globalisation has the propensity to generate benefits for some at the sacrifice of others, indeed, Daniel (2004) argues that the benefits of integration into the global economy will only be attained in a particular nation if its governance institutions are comparable with those of other global players are in place. For example, Prasad et al. (2003) note that countries with strong governance tend to do better at attracting FDI needed for growth. In this context, any apparent surface homogeneity in economic systems can conceal great structural differences between industrial centres and 'peripheral' countries (Prebisch, 1964). Moreover, globalisation exposes companies to fierce international competition, which by implication, means that countries with unsound corporate governance mechanisms will find it extremely unsettling; in this environment, the ECA (2002) argues, investors behave as if the world economy is borderless. Similarly, the CACG (1999b) suggest that:

> "As regulatory barriers between national economies are removed and global competition for capital increases, investment capital will follow the path to those countries and corporations that have adopted efficient governance standards" (CACG, 1999b, p. 1).

In contrast to the much vaunted benefits of globalisation, Detomasi (2002) points to its propensity for weakening important governance elements. But Armstrong et al. (2005) subscribe to a contrary view, arguing that the corporate governance reforms in South Africa that led to development of King Report 1 were largely driven by competitiveness and the country's re-integration into the global economy. Most African countries have not, however, benefited from the favourable effects of globalisation because of institutional deficiencies that in turn reflect the poor quality of domestic economic policies (ECA, 2002).

3.9 Corporate Governance and Development

Central to the empirical context of this thesis is the extent of any link between development and corporate governance. The Overseas Development Institute (2006) contends that there is a strong association between governance and development, stating that:

> "The relationship between governance and development has risen up the international policy agenda. There is widespread agreement that governance matters - intrinsically and for improvements in economic and social outcomes" (ODI, 2006 p. 1)

The World Bank (1989) argues that: "underlying the litany of Africa's development problems is a crisis of governance" (p. 60). In spite of governance not being a new concept in Africa, Ogendo (1995) argues that its interplay with development is a relatively recent paradigm on the continent. The shift in the development paradigm to include governance as a key factor is likely to be important because recognition of the causal relationship between governance and development has been lacking in Africa (NEPAD, 2007). However, the considerable difficulties inherent in trying to reach a consensus on the meaning of the terms 'governance' and 'development' have made the definitions elusive - establishing these in an indisputable manner is beyond the immediate goals of this thesis. In the present study, the word 'development' is used in the context of the term 'economic development', which is concerned with improving the well-being of the general population and the conditions of countries (Hensley, 1971). As regards the (more general) 'governance' concept, the following broad definition offered by Kaufmann et al. (1999) is adopted here:

> "…the capacity of the government to effectively formulate and implement sound policies, … the respect of citizens and the state for the institutions that govern economic and social interactions among them" (p. 4).

This broad definition touches on almost all aspects of governing, including at the political and economic levels. This thesis focuses on corporate governance as an element of economic governance; however, political and economic governances in general (and the interplay between them) are also highly relevant as they lay the platform for corporate governance debates. As noted earlier, the term 'corporate governance' is subject to continued lively debate. While much has been written about political and economic governance in general, this thesis identifies and examines corporate governance and the role it can play in economic development. The key extant literature in this regard is now outlined.

There is scant literature examining the specific link between corporate governance and development in Africa (Hope, 2002). However, empirical evidence on the general relationship between governance standards and economic outcomes is in abundance (Feinberg, 1998; Kaufmann et al., 1999; Rwegasira, 2000; Arun and Turner, 2009). Consistent with the theoretical and empirical literature underpinning corporate governance, the ultimate objective of the reforms in developed countries is evidently economic development (see e.g. the Cadbury Report, 1992; OECD, 1999, (revised 2004b); King Report, 1994 (revised 2002); GCGF, 2003). Oman (2003) argues that studies of Brazil, Chile, India and South Africa all authenticate the importance of corporate governance in development[73]. In this context, the OECD suggests that:

> "The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth" (p. 13).

[73]Oman (2003) suggests that: "… Corporate governance matters for development, more than is widely perceived, because it can contribute greatly to achieving sustained productivity growth in developing countries' real economies" (p. 1).

Sound economic governance contextualises corporate governance and thus underpins ‘good’ economic performance (World Bank, 1981; World Bank, 1989; ECA, 2002; Akokpari, 2004; Arun and Turner, 2009).

As discussed earlier in this chapter, concern with corporate governance is no longer confined to corporations and their owners, but instead spans a multiplicity of economic activities as they are the drivers of wealth (Wolfensohn, 1999; Oman, 2003; Charkham and Ploix, 2005), hence corporate governance cannot be ignored in the development paradigm. Corporate governance is a prerequisite for national economic development and an entry tool into the global pool of capital (ECA, 2002; Okeahalam and Akinboade, 2003)[74]. Indeed a range of studies suggest that Africa now realises the importance of governance for economic empowerment (Kilgour, 1998; Kaufmann et al., 1999; Ndulu and O’Connell, 1999; ECA, 2002; Mitchell, 2003; Akokpari, 2004) and as a powerful tool in the battle to alleviate poverty in Africa (IFC, 2010). While corporate governance may have a direct link to firm performance, the World Bank argues that its ultimate role - especially in developing countries - should be in alleviating poverty. The logic underpinning such an approach is set out by Rahman (2010) thus:

> “Good corporate governance can result in more efficient allocation of capital and therefore encourage higher levels of efficiency, quality, and competitiveness throughout the national economy. This will, in turn, help boost private sector development, create more jobs, improve quality of living, and ultimately lead to poverty alleviation” (p. 2).

A lack of ‘good’ corporate governance makes it difficult to attract sufficient capital, threatening the very existence of individual firms (and the macro-economy), thereby exacerbating poverty (Shkolnikov, 2002).

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[74] According to the OECD (2004) “Corporate governance is only part of the larger economic context in which firms operate that includes, for example, macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory, and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which a company operates can also have an impact on its reputation and its long-term success” (p. 12).

3.9.1 Aid, Governance and Development

As outlined in Chapter Four of this thesis, Zambia is a major donor aid destination country (Burnside and Dollar, 1997; Andersson et al., 2000; World Bank, 2009c). Foreign aid can be categorised into three groups: humanitarian, military and economic development assistance (Ayittey, 2010). In Africa, most of the debate about aid is focused on the latter and it is this area on which this discussion concentrates. Africa has received significant aid in the post-colonial era, but this has not resulted in significant improvements to economic outcomes, with some scholars even referring to it as 'wasted' (Lamprecht, 2005; Foldvary, 2005; Booth, 2005; Shah, 2010). Comments such as: "Africa is often held up as a prime example of wasted aid" (United Nations, 2006 p. 10) or "aid poured down the drain" (Visser et al., 2006 p. 11) are typical.

The significant aid flow to Zambia has, however, failed to record a considerable mark on the country's development (Burnside and Dollar, 1997; Andersson et al., 2000), which these authors blame on the governance standards. These assertions have also been acknowledged in the country's Fifth National Development Plan (FNDP) of 2006 by arguing that Zambia can only benefit from increased development aid if the governance standards are improved (see Chapter Four) and that foreign assistance through development aid constitutes an important financing source (Sixth National Development Plan, 2011). In this regard, foreign assistance targeted at development with 'good' governance conditionality is viewed as one of the driving forces for corporate governance in Zambia, under such conditions; aid has the propensity to help transform the country's economy. Brautigam and Knack (2004) point to South Korea, Taiwan and Botswana as examples where this has been the case. Foreign aid assistance has not only targeted development but, in most cases, donors have also used it as a conduit for improving governance in recipient countries. In this regard, and in addition to threat of aid suspension, the inclusion by major donor groups of governance conditionality in the development assistance eligibility criteria is viewed as one way of enhancing corporate governance and accountability, particularly in developing nations where such institutions are conventionally weak (Akokpari, 2004; Neumayer, 2004; Hout, 2007). However, political elites, who are the architects of Africa's poor extant governance, have continually outmanoeuvred the good governance conditionality and the external pressures more generally (Akokpari, 2004; Ayittey, 2010).

While it is expected that aid might be affiliated with improved corporate governance in recipient nations, Knack (2001) contends that the link is unproven (see Meessen, 1995). However, scholar's views of the impact of aid on accountability, governance and development remain mixed (Nherere, 1995; Sobhan, 2003; Brautigam and Knack, 2004; Carbaugh, 2009). While the Netherlands and the World Bank have both used governance indicators in aid recipient selectivity mechanism (Hout, 2007), Brautigam and Knack (2004) note that aid levels have continued to increase even in African countries that rank highly on poor governance record indices. Noteworthy, development aid should inspire 'poor' governance nations to reform (Burnside and Dollar, 1997).

3.9.2 Zambia's Experience

The empirical site for this thesis is Zambia. Despite the lack of attention to the nation's corporate sector in the literature, a number of points are worth highlighting in the development context. Zambia is a country where significant aid has failed to leave a significant mark due to, among other things, governance failures (Burnside and Dollar, 1997; Andersson et al., 2000). The Swedish government is heavily involved in aid to Zambia, but through its budget financing has recently expressed dissatisfaction with the manner in which the Zambian government has been utilising the development co-operation fund. Reporting for the Post Newspapers, Zulu (2010) writes:

> "Swedish Ambassador to Zambia Marie Andersson de Frutos has said the Swedish people are not happy with the manner in which development cooperation funds meant to address poverty are being managed. 'Sometimes we find ourselves in a situation where we have to freeze funds due to mismanagement…'".

The Swedish Ambassador's concern came in the wake of a scam unearthed at the Zambian Ministry of Health in 2009 in which over K10 billion (Zambian currency) was allegedly misappropriated. Akokpari (2004) argues that aid through budget funding has offered new opportunities for Africa's ruling elites to strengthen patron-client relationships and it is poor governance on the African continent which has facilitated this misappropriation, leading ultimately to reductions in aid levels (Brautigam and Knack, 2004). For example, Official Development Assistance (ODA) to Africa went down from US$28.6 billion in 1990 to US$16.4 billion in 2000 (Bentsi-Enchill 1997; Asante, 2003 p. 16). It is this reality which points to the need for a study such as this of governance in Zambia's corporate sector and the nature and extent of any consequences for development.

3.10 Conclusion

This chapter has provided a detailed review of the literature relating to governance in Africa; given the empirical focus of the thesis, the discussion devoted significant attention to the practical implications of variability in governance standards, particularly the effect on economic outcomes, including development. The key conclusions that can be reached on the basis of this review are that the quality of governance is of tremendous importance, not only for corporate entities and their shareholders, but to all stakeholders - including society - as it provides a level of assurance for transparency and enhanced accountability while promoting the efficient and effective use of limited resources for development goals. The implications regarding economic development are particularly pertinent in Zambia, a country that is still searching for meaningful levels of development as well as a coherent and robust underpinning for any such governmental strategy. The drivers of corporate governance can be summarised into two broad themes: (i) corporate failures; and (ii) companies' and countries' hunt for investment, competitiveness and access to regional and international markets and capital. Corporate governance has, therefore, become a prerequisite for national economic development. Having provided a discussion of the issues relating to the need for (and relationships between) "good" corporate governance and significant development at the general level, the next chapter focuses on the specific issues relating to Zambia.

CHAPTER FOUR

CORPORATE GOVERNANCE IN ZAMBIA

CHAPTER FOUR
CORPORATE GOVERNANCE IN ZAMBIA

4.1 Introduction

Corporate governance has emerged as a major global policy concern following the spate of disastrous corporate scandals in developed countries around the world (Mallin, 2009; Solomon, 2010). According to Wu (2005), the underlying strength of the countries witnessing many of the problems is a clear indication that no country is invulnerable to the impact of defective corporate governance standards and practices (see Shkolnikov, 2002; Jesover and Kirkpatrick, 2005; Arun and Turner, 2009; Wanyama, 2006; Wanyama et al., 2009). The concerns over firms' conduct and performance have resulted in significant attention being paid to the concept of corporate governance with the debate not being restricted to the efficient running of private and public enterprises, but extended to government ministries, trade unions, charities, churches, local authorities and educational institutions (Ronan, 2004). Debates regarding corporate governance span a range of disciplines including corporate behaviour and economic development (Babic, 2003). However, while the notion of corporate governance has grown in prominence around the world, it is a relatively new phenomenon in Zambia (APRM Country Self-Assessment Report, 2010). The World Bank (2009b) argues that while it is true that without good public governance there can be no growth, it is equally true that good corporate governance is essential if there is to be meaningful growth. The dearth of corporate governance literature, particularly regarding its attachment to development in emerging countries suggests a peculiar - and anomalous - departure from a fundamental paradigm affecting development in such nations (see Wanyama et al., 2009). This thesis is designed to help fill this gap.

While the US, Europe and developed countries elsewhere responded expeditiously to the series of scandals with targeted reforms (Berglof and Thadden, 1999), in many African countries corporate governance, just like political reforms, have been embraced reluctantly (Chulu, 2006). As Gruzd (2008) argues, the accountability and transparency that follow good corporate governance are usually in constant tension with the powers and prerogatives of the authoritative politics that characterise the majority of African countries. In such cases governments tend to design policies and institutions that are intolerant of transparency and accountability and therefore guarantee self-entrenchment and self-enrichment at the expense of national prosperity (Gruzd, 2008). In this context, Wanyama et al. (2009) argue that political, economic, accounting, social and ethical frameworks have a critical ascendancy in terms of corporate conduct.

This chapter focuses on the state of corporate governance in Zambia, the site of the empirical work in the thesis. The discussion follows on the significant factors driving corporate governance developments within the nation as well as the institutional and legislative arrangements and initiatives that have helped shape debate regarding the concept in Zambia. Effective corporate governance practices infuse the democratic values of fairness, accountability, responsibility, and transparency into corporations and are vital for both political harmony and economic prosperity (Post, 2002; Obong'o, 2009). However, for a country such as Zambia to achieve these aims there must be political will and wider participation in the governance reforms. As Ogendo (1995) argues, governance remains a central factor in the quest for sustainable development in African nations.

4.2 An Overview of Corporate Governance in Zambia

As alluded to in Chapter Two, Zambia's economy is anchored on copper production - a legacy of the pre-independence era - which accounts for over 70% of export earnings

(Coldough, 1997; Andersson et al., 2000; Lungu and Kapena, 2010). According to Lungu (2005) and Chulu (2006), Zambia's economic governance has witnessed three major phases, starting with the open market economy of the pre-independence and immediate post-independence era (1960 - 1969), followed by the state run, demand economy covering the period 1970 - 1990, before the nation reverted back to a free market based-economy as a result of changes in political governance in the early 1990s. Zambia's current corporate governance and regulation orientation has been modelled on these three phases of economic governance, each of which has its own implications (Lungu, 2005; Chulu, 2006). In order to explore an evolutionary pattern in governance, the focus now turns to the three distinct periods.

4.2.1 The First Phase of Economic Governance, 1960 - 1969

Zambia's economic management in the first phase was based on the well-established (colonial) market economy system driven by the private sector (Chulu, 2006). Mulwila (1980) argues that the government's economic policies during this period were focused on development anchored by private sector investment that was in turn facilitated by the state providing a conducive environment for business. Mulwila (1980) contends that, this strategy was a realisation of the importance of the private sector in economic development, as manifested in most developed economies. The economy at this stage was dominated by foreign companies with ownership structures and governance models reflecting the Anglo-American model, while government intervention was restricted to the provision of services, particularly in rural areas where it was neither practical nor profitable for the private sector to operate (Turok, 1980; Mulwila, 1980; Chulu, 2006). However, company regulation was based on the British Companies Acts of 1948 (Chulu, 2006).

4.2.2 The Second Phase of Economic Governance, 1970 - 1990

4.2.2.1 The Drive for Change

As in many newly-independent African countries, Zambia's private sector was dominated by foreign businesses, creating an impression that despite independence, economic management was still in the hands of non-Zambians, including the former colonial powers (Tordoff, 1980; Turok, 1980; Mwanawina and Mulungushi, 2002; Chiumya, 2004). There was also an assumption that, left to its own devices, the private sector would have no incentive for pursuing the economic transformation programmes supported by government (Andersson et al., 2000), leading to the need for state intervention in the allocation of resources. These concerns were expressed in a statement by the then President of the country when he stated that: "Political independence without economic independence is meaningless" (Kaunda 1968). This thinking led to the nationalisation reforms and was the genesis of the second phase of economic management.

4.2.2.2 Economic Indigenisation Programmes

The indigenisation programmes that inspired many newly-independent African countries stimulated the creation of state-owned enterprises in Zambia. This programme began with the reformulating of ownership structures, with the state acquiring 51% shareholdings in 26 major private companies (Brownbridge, 1998) (Foreign banks[75] and mines[76] were excluded); However, the sweeping Matero economic reforms of 1969 that followed the Mulungushi programme of the previous year ushered in new government policies that saw the state acquire controlling interests in the mining companies that were initially side-lined[77] (Turok, 1980). It is argued that the genesis of indigenisation programmes was (partly) a response to foreign exploitation at the hands of multinational corporations that dominated the economy

[75]The state did not invest to this extent in the foreign banks as they were incorporated outside Zambia.

[76]The state argued that control (and more time) was needed with the mines as they were at the heart of Zambia's economy.

[77]On 11 August 1969 the state acquired a 51% controlling interest in the giant copper mining companies which constituted the main pillar of the economy (Turok, 1980 p. 468).

(Turok, 1980), dominance which many Zambians viewed as a new de facto form of colonialisation. Effectively the state became the majority shareholder for both control and decision-making purposes; in this context, Simwinga (1980) argues that government now controlled enterprises through the board of directors, chaired by the Minister under whose portfolio the company resided, despite this model not being provided for in the extant Companies Act. However, like private companies, government's control of state-owned companies derives from the conventional rights and privileges of shareholders in capitalist systems (Simwinga, 1980). Moreover, according to Turok (1979) government representation and consequential control at board level was the main rationale for the state's acquisition of majority shareholdings in key private companies. Turok (1980) asserts further that government's presence was not motivated by resource mobilisation but instead reflected a desire for effective control. With this ownership and control structure, Simwinga (1980) argues that investment decisions vested in the board of directors always championed government policy objectives. Between the 1960s and the early 1970s, favourable world copper prices might have propelled the Zambian government into pushing for total state control of the mines, which were ultimately nationalised in 1969 (Beveridge, 1974; Lungu and Kapena, 2010). Maimbo (2002b) contends that by the mid-1970s, Zambia had become a model of effective public sector led-economic system. While the intentions may have had some positive impacts at the time, the negative political consequences resulted in dis-investment and poor economic performance (Lungu, 2005).

4.2.2.3 Economic Performance and the Failure of State-Owned Enterprises

In the early 1990s, Zambia's debt burden swelled to over US$6.5 billion (Poku, 2002), over 216% of GDP, ranking the country among the most indebted nations in the world. The

'Zambianisation'[78] of key aspects of the economy, along with interventionist economic policies as well as the use of parastatals for ethnic patronage and intermittent restructuring are among the factors cited for the poor performance of Zambian corporate entities and, ultimately, the entire macro-economy (Simwinga, 1980; Tordoff, 1980; Brownbridge, 1998; Maimbo, 2002b). Simwinga further argues that state-owned enterprises subjected to delays and bureaucratic tendencies - as well as constrained budgetary allocations - were always overshadowed by private companies. Similarly, Kikeri et al. (1994) contend that many state-owned enterprises could not sustain themselves and, hence, became a burden on the national treasury. For Clausen (1993), it is impediments such as "negative" state intervention in the economy that triggered worldwide promotion of the private sector in the management of national economies. However, even at the time, many established voices argued that over-extending the role of the state in economic development perverts economic performance (e.g. World Bank, 1981).

4.2.2.4 Corporate Governance Implications

Lungu (2005) argues that state control over public companies had major implications for corporate governance standards in the management of the Zambian economy, particularly in the 1970 - 1990 phase of economic governance. Cook and Kirkpatrick (1997) argue that the most fundamental corporate governance implications in this type of environment relate to state-owned enterprises' difficulties in operating as business entities while at the same time paying close attention to government objectives which, in most cases, are politically and socially-oriented. This disorientation gives rise to a dislocation in the corporate governance framework. According to Chulu (2006), the state pursued the stakeholder theory to its extremes, leading to the suffocation of Zambia's publicly-owned enterprises. For Turok

[78]Zambianisation is a philosophy that was formally intended to put the management of the Zambian economy into domestic hands. This approach dictated that most foreign employees be replaced by Zambians, after which the Mulungushi and Matero economic reforms of 1968 and 1969 respectively saw the government's control of the country's economy extended over a wide range of activities (Tordoff, 1980 p. 51).

(1980), the state's resolve to consolidate its presence in all economic activities by bringing together each of the active sectors (the Mining Development Corporation (MINDECO); the Finance and Development Corporation (FINDECO); and the Industrial Development Corporation (INDECO); under the umbrella of the Zambia Industrial and Mining Corporation (ZIMCO), with the country's President, Kenneth Kaunda, as Chairman of the Board provided serious difficulties in terms of progress in the corporate governance area[79]. Chulu (2006) reveals that at the inception of ZIMCO, the President appointed boards of directors as well as managing directors and general managers of subsidiary companies, violating not only the extant Companies Act, but also any conventional notion of 'good' corporate governance. In 1989, the director general and head of ZIMCO's management, plus 12 of the 22 ZIMCO directors were members of the central committee in Zambia's ruling party (Bates and Collier, 1995). In practice, the board was accountable to the president (Mulwila, 1980; Chulu, 2006) and the latter assumed the role of de facto board at ZIMCO, with all board leadership and appointments vested in him. In this context, Mulwila's point of view is that:

> "In practice the significance of the shareholders of ZIMCO has been vitiated in that certain of their powers such as powers of appointment of directors and of policy making are exercised by the president and the central government. The shareholders merely ratify what has already been decided in government corridors. To this extent ZIMCO's retention of shareholders is for window dressing rather than of substance" (Mulwila, 1980; p. 138).

ZIMCO had 121 state-owned enterprises under its control and was involved in virtually all the activities of the Zambian economy; according to Simwinga (1977), the amalgamation of all state-owned organisations meant that ZIMCO became the largest firm in Sub-Saharan Africa, ranking 123rd in size among corporations outside the USA. The arrangement thus meant that control of nearly all industrial production in Zambia resided with the President. State control extended to almost everything, from bakeries[80] to mining conglomerates

[79]A further description of this matter was provided in Chapter Two.
[80]E.g. Super loaf bakery, a parastatal company controlled by the Zambian government.

(Chulu, 2006). However, Solomon (2007) points out that unfettered power vested in one person is a reflection of bad corporate governance practices and indeed this was a problem in the Enron case. Similarly, the UK's Cadbury Report (1992) emphasises that shareholders have a role in ensuring that an appropriate governance structure exists. In particular, the Cadbury Report recognises the role of the chairman in corporate governance as fundamental in providing leadership and checks and balances; Zambian practice at the time was clearly far removed from any such ideal models.

4.2.3 The Current Phase of Economic Governance (from 1990).

The economic hardships experienced by Zambians during the Second Phase of Economic Governance prompted calls for political governance reforms that would bring about improvements to economic governance (Lungu, 2005; Chulu, 2006). This aim was achieved in 1991 when, as outlined in Chapter Two of this thesis, the country moved from a one-party to a multi-party system. The change in political governance drove a shift to an open-market economic system, with large-scale privatisation of state-owned enterprises, liberalisation of the financial market and a major reduction in government's control over the running of the economy (Kpundeh and Riley, 1992; Chiumya, 2004; Lungu, 2005; Chulu, 2006). The de-nationalisation programme characterised the third phase of Zambia's economic management and added further to the growing interest in corporate governance across the nation. In this context, the Financial Sector Development Plan for Zambia (FSDP, 2004) recognises corporate governance as key to the country's economic performance, stating that:

> "The financial sector in Zambia requires institutions that are managed with integrity, probity and transparency in their effort to contribute positively to society. To this end, there is a need for appropriate education, legislation and codes of best practice to facilitate the adoption of good corporate governance principles" (p. iii) [81]

[81]Similarly, Kuwema (2011) notes the Institute of Directors in Zambia (IODZ)'s belief that corporate governance is a fundamental tool for any economic development of a country.

Having discussed the broad political and economic governance context, the chapter now moves to a discussion of governance issues in the Zambian corporate sector.

4.3 Corporate Governance Developments in Zambia

Africa has not been spared the corporate governance difficulties well-documented in the developed world (Wanyama et al. 2009). In fact, Zulu (2009) reports the Civil Society for Poverty Reduction (CSPR)'s observation that what Zambia has been experiencing recently is no less than the total collapse of corporate governance. The CSPR's argument is based on what they referred to as a 'collapsed' political leadership that lacks accountability and allows abuse of public office. Similar sentiments were echoed following the Zambian government's removal of the abuse of office clause from the Anti-Corruption Commission (ACC) Act, opening more avenues for rampant abuse of public resources (Zulu, 2009). A number of factors have been cited as catalysts for the growing interest in corporate governance in the country. Notable among these are: systematic corporate failures; the 1991 change in political governance and reforms; the establishment of the Save Konkola Copper Mines (KCM) Task Force in 2002; and Zambia's consistently poor ranking on the Corruption Perception Index (CPI). These issues are now discussed in detail.

4.3.1 Corporate Failures - Zambian Experience

The well documented failures of some high profile companies in the US, Europe and Asia, revealed serious weaknesses in corporate governance regulations (Sternberg, 2004). While developed economies moved swiftly to prevent further corporate scandals and failures, in developing countries like Zambia the concept of corporate governance is relatively novel, and has yet to permeate through the nation's key industries. In Zambia, however, systematic corporate scandals coupled with disastrous social and economic circumstances have left wider society questioning in whose interest organisations are run. Though failures in developed countries monopolise the corporate governance literature (Wanyama et al., 2009), Zambia has its own story to tell. Brownbridge (1998) argues that the country's failures were initially viewed as politically motivated. The author cites the controversies that surrounded the collapse of the Capital Bank in 1991. In this context, but as Maimbo (2002a) notes, between 1995 and 1998, Zambia experienced more corporate failures, particularly in the banking sector, with nine banks collapsing[82].

4.3.2 Reasons Cited for Failures

The common reasons cited by Maimbo (2002a) and others for the systematic bank failures in Zambia are largely associated with high levels of non-performing loans, excessive 'connected lending' to related parties and a high level of insider borrowing. To this effect, Maimbo states that:

> "[The] BOZ attributed MBBZ's failure to insider abuse, incompetent management coupled by an ineffective Board of Directors, and foreign exchange exposure risks" (p. 34).

Smith (1996**)** cites managerial incompetence and ineffective boards of directors as reminders of the bad corporate governance practices that influenced institutional investors and the board of directors to remove the chief executive officer at Kmart Corporation in 1995. Similarly, Financial System Supervision Department (FSSD), (1996) notes that BOZ attributed the African Commercial Bank's failure to: "abuse of insider borrowers coupled with the ineffective Board of Directors, which was easily manipulated by one major shareholder" (p. 10)[83]. The literature associated the failures with several macro and micro

[82]Meridien BIAO bank, the fourth largest bank in Zambia, was placed into compulsory liquidation on 18 August 1995 (Brownbridge, 1998; Maimbo, 2000a; Maimbo, 2002) followed by the African Commercial Bank and Commerce Bank in the same year (Brownbridge, 1998; Maimbo, 2000; Maimbo, 2002a; Maimbo, 2002b). In 1997, the Lima Bank, the Prudence Bank, the Credit Africa Bank and the Manifold Investment Bank collapsed, followed by the First Merchant Bank in February 1998 (Maimbo, 2002). The Zambia Export and Import Bank Limited (EXIM) Bank ceased trading at around the same time, while the Co-operative Bank was closed in 1997 in the face of governance-related issues. Other banks that were closed following allegations of money laundering and deteriorating financial performance include: Union Bank, the United Bank of Zambia and the National Savings and Credit Bank (International Business Publication, 2008).

[83]See also Brownbridge (1996; 1998).

factors, but weaknesses in de facto governance in the banking sector were identified as a key issue (Brownbridge, 1996; FSSD, 1996; 1998; Maimbo, 2000a; 2001; Mwenda, 2002; Chiumya, 2004)[84]. To this effect, the central bank (Bank of Zambia) through the Financial Sector Development Plan of 2004 recognises corporate governance as one of the main issues to be addressed to protect banks from further governance turmoil (Times of Zambia, 2005).

With the collapse of many local banks, foreign banks came to monopolise the banking system in Zambia (Brownbridge, 1998; Maimbo, 2002a). Elsewhere in the economy Agriflora Ltd, the country's biggest commercial rose-flower grower, collapsed in 2005 (Food and Agriculture Organization, 2009) reducing horticultural export revenue from US$45m in 2003 to about US$36m in 2004 (Export Board of Zambia, 2005; Regoverning Markets, 2007). Lungu (2005) holds poor governance responsible for the failure, suggesting that the issue pervaded across both industrial and financial sectors. There have been many other failures in the Zambian private sector and among the nation's state-owned enterprises but, as alluded to earlier, such failures are mostly associated with broad political issues (see Brownbridge, 1998). However, in 2008, the Zambian parliament revealed that a substantial number of the liquidations in the early 1990s may have been due to the non-existence of robust corporate governance principles (Zambia National Assembly, 2008); the report further argued that:

> "…there must have been some element of unethical business conducts such as creative accounting which could have led to the collapse of some of these companies" (p. 2).

The committee contended that corporate governance is not only a tool for increasing the flow of investment to corporations in Zambia, but has economic development implications for the country as well. They argue further that efficient companies or business enterprises are those that will create wealth, employment and revenue for the treasury and,

[84] Nchite (2000) summarised the reasons put forward by different scholars as simply representing 'poor governance'.

consequently, lead to economic growth[85]. In this context, the parliamentary committee claims that 'good' corporate governance is a prerequisite for national economic development.

4.3.3 Changes in Political Governance in 1991

The change in Political Governance in 1991 that led to the transition to a market economy represents one of the major drivers of corporate governance in Zambia. During this era, serious corporate governance issues emerged as the immediate aftermath of political reforms saw large scale privatisation of state-owned enterprises. Though the decline in economic activity was closely associated with the global oil crisis and the decline in world copper prices, it can also be argued that the state-owned enterprises (which by 1991 represented over 80% of all economic activity (Turok, 1980; Mwanawina and Mulungushi, 2002; USAID, 1997) were seriously defective in terms of governance structures. Indeed, some of them had become so complex that they became a breeding ground for manipulation and mismanagement, not least ZIMCO (Turok, 1980).

4.3.4 Privatisation

The shift in economic policy meant that most companies under state control were surrendered to private owners. However, this change in firm ownership posed significant corporate governance challenges for Zambia. The Zambia Privatisation Agency (ZPA) established in 1992[86] was mandated to plan, implement and control the privatisation of the nation's state-owned enterprises, in cooperation with the government, by selling them to those who were seen as more competent to run them (ZPA, 2009). Between 1991 and 2006, over 260 companies were privatised[87]. As has been the case with privatisation programmes

[85]The Cadbury Report (1992) expresses very similar sentiments for UK (see Cadbury Report, 1992, Section 1.1).
[86]Through the Privatisation Act No.21 1992.
[87]According to the ZPA's Privatisation Status Report for 2006, by July 2006, in addition to 260 privatised firms, another 2 had negotiations completed while a further 22 were "under preparation."

across much of Africa, concerns were raised over the social impact, as companies were being sold without any attempt being made to assess these effects (see Josiah et al., 2010). In some cases the state did not even know who was responsible for the retrenchment packages because ZPA's Social Impact Department had a limited role to play in this area (ZPA, 2009). Banda (2009) concludes that the government appeared to only be interested in disposing of companies, and had no programme for (or concern about) other factors such as social implications.

4.3.5 Privatisation and corporate governance

Privatisation is viewed by many as a means of improving corporate governance through structural corporate reform (Dyck, 2001; Boubakri et al., 2005). For Zambia, Chulu (2006) argues that privatisation has the propensity to minimise incidents of neo-patrimonialism and opportunism amongst political clientele that are prevalent in state-controlled enterprises. Private control has been suggested as leading directly to improved corporate governance (Jones et al., 1998; Owen, 2004) with some scholars explicitly positing that there has been a shift in the privatisation debate from efficiency and competition issues to broader governance concerns (Johnson and Shleifer, 2004; Kim, 2004). The incentive and ability to work towards cost efficiency and make enterprises attractive to investors is what Owen (2004) argues drives fully privatised enterprises towards 'better' corporate governance practices than state-owned enterprises. The author believes that managers of 'properly-run' companies are expected to observe the tenets of good corporate governance practices such as accountability, transparency, fairness and responsibility as opposed to their counterparts in the state-controlled sector, who work under severe political pressures.

Lungu (2005) points to poor qualifications amongst state-appointed CEOs and board members as being a significant challenge. Similarly, the ZPA (2009) argues that 'negative' political interventions such as governmental determination of pricing[88], politically-blocked investment and state employment policies based on political patronage proved counter-productive. The ZPA also points to factors such as losses[89], deterioration in trade, debt burdens, a lack of capital investment and significant internal mismanagement as some of the corporate governance challenges that arise in state-owned enterprises. Likewise, Dyck (2001) argues that:

> "Unless developing countries embrace a corporate governance perspective, privatisation is unlikely to provide the benefits of improved performance with accountability" (p. 59).

There are a number of specific cases where privatisation has been claimed to have improved corporate governance in Zambia. Speaking during the official listing ceremony that marked the completion of the privatisation of the country's biggest commercial bank, the Zambia National Commercial Bank (ZANACO), the Minister of Finance observed that the listing marked a significant step on the road to achieving good corporate governance and sustainable growth (Lusaka Times, 2008). Following privatisation, the bank's capital had more than doubled while profitability had improved substantially (Sinyangwe, 2009a). In the same vein, Johnson and Shleifer (2004) point out that privatised firms that did not embrace corporate governance performed poorly, frequently being "tunnelled" by their management.

However, critics of privatisation in Africa, for example, Josiah et al. (2010) argue that privatisation that is focused on profitability without meaningful consideration for social factors is at best controversial and is most likely to lead to major harm for much of society. Similar sentiments were expressed by Lungu and Kapena (2010) who posit that the privatisation of Zambia's mines has resulted in the deterioration of infrastructure and service

[88]As Zambia's economy has become more open, pricing has become more competitive. In addition, international and domestic transportation costs can be a considerable factor in selling goods (Doing Business in Zambia, 2010).
[89]Parastatal losses led to a significant burden on the tax payer (ZPA, 2009).

provision in the nation's mining towns. While Gallhofer and Haslam (2007) point to the lack of transparency and disclosure between the government and the buyers in such cases, the new owners of ZANACO, Rabobank Group, claim to have paid particular attention to the issue of corporate governance[90]. While privatisation of state-owned enterprises is viewed as a means of improving corporate governance, Okeahalam and Akinboade (2003) suggest that the African experience has led to the resurfacing of inherent governance conflicts in most newly-privatised companies; these are in turn associated with a lack of independence and significant cronyism. Similarly, Krasniqi (2008) argues that any privatisation process that lacks transparency has the propensity to create opportunities for corruption, asset stripping and a tendency to generate disrespect for private ownership; as a result, the process may fail to achieve its intended purpose. Nonetheless, effective corporate governance practices in newly-privatised companies are viewed as useful tools for attracting investment (Wanyama et al., 2009), as well as lowering the cost of capital (Krasniqi, 2008), improving productivity, capturing new export markets, recreating the lost jobs and expanding the nation's tax base (ZPA, 2009).

4.3.6 Anglo-American Corporation's sudden pull out of the Mines

The sudden pull out of Anglo-American Corporation from Zambia's mining giant Konkola Copper Mines (KCM) in 2002, and the appointment in the same year of a task force to save the mines from total collapse, is another event that led many Zambians to question governance issues in the privatised companies. The decision to pull out just two years after acquiring 51% shares in the mining company was viewed by many as not only damaging to the Zambian economy, but also as a violation of good governance principles (MIS, 2009). Anglo-American Corporation cited heavy financial losses caused by unexpectedly low copper prices as the reason for the pull-out, but analysts argued that this was not a 'fair'

[90] The group has also endorsed the principles of the Dutch corporate governance code embraced by the parent company (Rabobank, 2009).

justification (MIS, 2009). For example, just after the corporation pulled out the price trend reversed, with copper reaching a new record high in the year 2005 (KCM Plc, 2009; Lungu and Kapena, 2010).

4.3.6.1 Corporate Governance Implications

Anglo-American Corporation took advantage of the Zambian government's desperation to negotiate huge concessions using procedures that lacked transparency and full disclosure (Kaleyi, 2002; Donge, 2008)[91]. Examples of the concessions wrought include: a low fixed power rate of 2 cents per kilowatt for 20 years; tax exemptions for 5 years; exemption from paying duty; and government agreeing to assume the company's debt as well as paying for redundancies, bearing the cost of environmental liabilities and assuming US$770 million of the company's credit liabilities (Kaleyi, 2002); Anglo thus fell in a position to make an offer of US$90 million spread over 7 instalments covering 7 years (Kaleyi, 2002). Lungu and Kapena (2010) argue that:

> "The privatisation of the ZCCM …triggered a major debate concerning corporate governance and the corporate social responsibility performance of Zambia's mining industry" (p. 58).

The World Bank accused Anglo of breaching corporate governance rules regarding the manner in which the KCM pull-out was handled (Kaleyi, 2002); while in August 2002 Friends of the Earth International (FOEI) published a report in which they critiqued the firm's activities in Zambia. Specifically, the FOEI claimed that the company had violated the OECD guidelines for multinational enterprises[92], but it also noted that Anglo had obtained secret agreements on tax, royalty payments, repatriation of profits and non-liability

[91] Donge (2008) suggests that the discussions took place in 'secrecy'.

[92] OECD guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation (http://www.oecd.org).

for past and future pollution (FOEl, 2002). Similarly, it was reported in Africa Confidential (2001) that:

> "Zambian activists accuse the mining giant Anglo-American of breaching the Organization for Economic Cooperation and Development's code of conduct when the copper mines were privatized. In a test case for the OECD's code, the Copperbelt-based group Citizens for a Better Environment (CBE) has complained to Britain's Department of Trade and Industry (DTI). The CBE accuses Anglo of having broken OECD rules on competition, taxation, environmental protection and disclosure, when it bought several mines on the Copperbelt through its subsidiary Konkola Copper Mines (KCM)"

The debate on the conduct of Anglo's period of investment in Zambia raised governance issues regarding both the manner in which negotiations were conducted during the sale and the company's conduct thereafter; for example, Donge (2008) argues that the government's chief mine privatisation negotiator between 1997 and 1999 was a former chairman and chief executive of the same mines. Donge further observes that negotiations about development agreements were conducted behind closed doors, with the documents being withheld from public scrutiny and no opportunity for those affected to query the deal[93, 94]. Ultimately, however, the controversies surrounding the events at Konkola Copper Mines led to the establishment of the Save Konkola Copper Mines Task Force, some of the activities of which are discussed in the empirical chapters of this thesis.

4.3.7 Chinese Investment in Zambia and Corporate Governance

Chinese investment in Africa, Zambia in particular, has grown rapidly in recent decades (Haglund, 2009; Adam, 2010). According to Claassen et al. (2012), by 2008 China's Outward Foreign Direct Investment (OFDI) in the continent rose to US$5.49 billion,

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[93] Other allegations include Anglo America's Corporation's failure to comply with IFC guidelines on disclosure and environmental legislation and entering into a secret deal with the Zambian government to forgo payment of proper compensation to workers and the clean-up of toxic sites.

[94] The organisation Rights and Accountability in Development (2002) also blamed Anglo America's manipulation of: the privatisation regime; the anti-competitive practices during the sale negotiations; the tabling of extraordinary tax concessions; the extent of continued social provision; employment; redundancies; training and co-operation with local business; environmental deregulation; and disclosure and accountability (see Inter-African Network for Human Rights and Development, 2002).

covering 45 of Africa's 53 countries, with Zambia receiving the third highest figure of $73 million after South Africa and Nigeria. However, opinions regarding China's involvement in Africa appear to be divided, with terms such as: 'new form of colonialism', 'the new Sinophobia', 'China's scramble for Africa', 'China's conquest of Africa', 'China's new mercantilism in Africa' being used in this context (Li, 2010). Notwithstanding these concerns, the significant role that such investment plays in the continent's growth is widely recognised (Claassen et al., 2012). However, from China's point of view, the involvement in Africa appears to be not only commercial, but social and political as well (Claassen et al., 2012), with Tull (2006) describing China's relationship with Africa as commercial, political and diplomatic.

With China taking a significant interest in Zambia, it has become imperative that, for inclusivity purposes, this new investment is given attention in corporate governance discussions (Haglund, 2009). In this regard, this section of the chapter is designed to briefly outline the implications of increased Chinese investment for corporate governance and development in Zambia. Haglund (2009) argues that, like many African nations, Zambia's regulatory capacity constraints and weaknesses in accountability, coupled with state intervention, makes the country vulnerable to the dictates of foreign investors' governance characteristics. This, Haglund maintains, partly influences the relationship between China and Zambia. Similarly, Adam (2010) believes that China's no-strings-attached method of investment, reinforced by its foreign policy in Africa which is based on, *inter-alia*, mutual respect for sovereignty, territorial integrity and non-interference in each other's internal affairs (Haglund, 2008) appears to be more attractive for many African leaders than does the support offered by most Western financiers, with its transparency and accountability strings (Clapham, 1999). In most cases, particularly in this context, the strings-attached investment is interpreted to refer to flows of investment that have 'good' governance conditionalities attached. It is this type of conditionality, practiced by most Western financial institutions and countries, which irritates the majority of the African political elites because it limits their access to resources for personal gain (Haglund, 2008). Here, the author states that:

> "Some African rulers may find Chinese investment attractive because the Chinese discourse of development, unlike that of the West, does not embed pressure to reform and strengthen participatory democracy, good governance and human rights" (p. 552)

Adam (2010) argues that such an approach, which lacks any commitment to transparency and accountability, has very little benefit for the majority of stakeholders in terms of development.

4.3.7.1 Implications for Corporate Governance

Past decades have witnessed growing attention to corporate governance in both developed and developing economies (Cadbury, 2002; Dallas, 2004; Mallin, 2009; Solomon, 2010). This trend has seen the emergence of numerous systems and codes in developed economies (Shleifer and Vishny, 1997; Babic, 2003), a pattern that has slowly been replicated in developing nations (Solomon, 2010) with most governments surrendering SOEs to private entrepreneurs with a view to strengthening corporate governance (Josiah et al., 2010). However, Lin (2001) questions China's capacity to improve corporate governance, particularly in SOEs, without undergoing the common process of privatisation as, Lin argues, politicians are not the best enforcers of corporate governance standards. This is evidenced in China's approach to investment in Africa which, as noted above, Adam (2010) refers to as taking place on a 'no-strings-attached' basis. Some commentators argue that this approach has little chance of emancipating Africa (Clapham, 1999; Haglund, 2008; Adam, 2010), a continent bedevilled with governance and accountability difficulties (World Bank, 1989). The approach contrasts with the view held by most scholars that investors are increasingly demanding corporate governance reforms in investee countries (CACG, 1999;

Gibson, 2003; Nganga et al., 2003; Oman, 2003; Lungu, 2005) with some investors seeing corporate governance as a key influence on investment decisions in emerging markets like Zambia.

Zambia, like most African nations, has legal and regulatory deficiencies (Li, 2010) which some observers argue provide opportunities for foreign investors to impose their emblematic governance characters (Haglund, 2009). In this context, Li (2010) argues that:

> "The terms of investment, inadequate labour laws and the failure of the Zambian government to implement related laws are also contributing factors. These problems are Copperbelt-wide rather than specific to Chinese companies" (p.10).

and:

> "Chinese investors and contractors can do a good job while adhering to the required standards. However, just like other investors, the Chinese are prone to take advantage of the loopholes in the system. You therefore need to put your foot down and ensure that things get done the way they should be done" (p14).

This reasoning is consistent with Haglund (2009)'s assertion that in the absence of robust legal and regulatory mechanisms China will exploit gaps in governance regimes. On the other hand, Alden (2007) posits that Chinese investment has worked well in developed countries, with strong corporate governance regulation and monitoring evident, although the same activity has been portrayed as China taking full advantage of Zambia's anaemic political, legal and regulatory environment (Haglund, 2009; Li, 2010). Li (2010) further points out that Chinese companies operating in Zambia have earned themselves a bad reputation regarding environmental practices, corporate social responsibility, health and safety standards, poor labour remuneration, failure to embrace the culture of the local societies in which they work and live[95] and the regular recruitment of casual workers from China (see Haglund, 2009).

[95] For example, (Li, 2010) notes that: "The enterprise culture of Chinese companies is different to Western companies. Western managers treat Zambian employees as their small brothers. For instance, the Western managers will use the same toilet as the Zambian workers, but in Chinese companies, the Chinese have their own toilet. It seems the Chinese like to put up barriers."

One of the issues affecting Chinese companies in terms of corporate governance appears to relate to the fact that the largest Chinese multinationals operating in Zambia are state-owned. For example, Chambishi Copper Mine is owned by the Non-Ferrous Company–Africa (NFCA) a subsidiary of the state-owned China Nonferrous Metal Mining (Group) Company (CNMC); this organisation also owns Chambishi Copper Smelter (CCS) and has an 85% stake in Luanshya Copper Mine (Li, 2010). In this regard, Haglund (2009) maintains that although the Chinese government is not involved in the routine actions of Chinese firms abroad, China's central government remains influential in promoting outward investment and the governance features of its SOEs to ensure that policy objectives are congruent with government objectives. This author further reports that by 2007, of the seven key copper mining companies in Zambia, only China Nonferrous Metal Mining (Group) Company (CNMC) was a government-controlled enterprise, while the rest were private[96], "at a time when most multinationals operating in Africa are private, large Chinese investors … are frequently state-owned" (Haglund, 2009 p. 557)[97]. While the governance difficulties are not only confined to Chinese SOEs (Li, 2010), it is commonly-accepted that corporate governance standards in SOEs are not high (Lin, 2001; Qiang, 2003; Wong, 2004). In this regard, Lin (2001) argues that China's continued influence as owner and financier of SOEs is partly responsible for weakened corporate governance in such enterprises (see Haglund, 2008); the author maintains that SOEs generally suffer from: "core governance deficiencies such as conflicting objectives, excessive political interference, and lack of transparency" (p.6) and that "politicians and bureaucrats are typically poor overseers of SOEs" (p.9). The

[96]In 2007, key players in Zambia's copper mining sector included: Kansanshi, owned by First Quantum (Canadian) – FTSE, TSX; Konkola Copper Mines, owned by Vedanta (Indian) – FTSE; Mopani Copper Mines, owned by Glencore (Swiss-Registered) – Private equity; Chambeshi Metals, owned by Enya Holdings, (Nertherlands – Registered) – Private equity); Bwana Mkubwa, owned by First Quantum (Canadian) – FTSE, TSX; NFC Africa, owned by China Nonferrous Metal Mining (Group) Company (China) – Government owned; Chibuluma, owned by Metorex (South Africa) – JSX.

[97]See also Frost and Ho (2005).

other problematic area for Chinese investment stems from the fact that, in most cases, Chinese and Zambian politicians are highly involved in the negotiations of investment, resulting in political embeddedness (Haglund, 2009).

The extent of inter-company transactions between Chinese firms operating in Zambia, and their parent companies in China, combined with Zambia's limited regulatory capacity to enforce international accounting standards is blamed by Haglund (2009) for impaired accountability, loopholes for tax evasion and accounting irregularities. Here, Haglund (2008) reports that:

> "Among the five international mining companies operating in Zambia for which annual financial statements where available for the last three years, only NFC Africa's accounts had received any auditor qualifications (and did so in every year). NFC's auditors Deloitte & Touche cite unavailability of information that makes them 'unable to determine whether proper accounting records have been maintained'" (p. 558).

Similarly, most Chinese firms' pursuit of maximum output at minimal cost results in neglect for labour and environmental laws, reduced investment in health and safety systems, poor staff training, limited social responsibility and ignoring of corporate governance standards (Haglund, 2009; Li, 2010). Equally, balancing economic gains and diplomatic objectives further problematises Chinese investment in Africa (Haglund, 2008). However, commentators argue that while Chinese firms may have taken advantage of the deficient political and regulatory environment in Zambia - characterised by outdated legislation and weak enforcement mechanisms - the responsibility for and sanctioning of non-observance of local laws and regulation lies squarely with the Zambian government (Haglund, 2008; Haglund, 2009; Li, 2010). The last few years have nonetheless witnessed a slight improvement in the behaviour of some Chinese firms' operating in Zambia (Li, 2010), mainly due to a change in in the latter's government in September 2011, coupled with widespread local and international criticisms. Given this context, corporate governance reform must be seen as non-negotiable if the Zambian population is to benefit from the lack of strings attached to the Chinese windfall.

4.3.8 Corruption in Zambia

The National Anti-Corruption Policy (NACP) contends that: “Corruption has been and still is a significant impediment to good governance in Zambia” (NACP, 2009 p. i). Zambia’s government, through the National Capacity Building Programme Poverty Reduction Strategy, characterised corruption as not only a governance conundrum but also as a challenge to social and economic development (NACP, 2009). NACP (2009) defines corruption as:

> “ soliciting, accepting, obtaining, giving, promising or offering of gratification by way of a bribe or other personal temptation or inducement or the misuse or abuse of a public office or authority for private advantage or benefit through bribery, extortion, influence peddling, nepotism, fraud, rushed trials, and electoral malpractices” (p. v).

Corruption appears to have filtered through the cultural characteristics of many African countries, becoming an expected element of every social transaction (Chabal and Daloz, 1999; Taylor, 2006b). While corruption is viewed as a barrier to development and good governance (Mensah et al., 2003), most developing countries lack the political will and institutional capacity to deal with the scourge (see Joseph, 2003). Cain (2007) argues that the world’s poorest countries are in fact the most vulnerable to corruption, consistent with this notion, David (2006) observes that nine of the sixteen most seriously corrupt nations on earth are in Africa. However, a combination of factors ranging from poor education, under-developed and inappropriate institutional arrangements and, sometimes, political instability that characterise most African countries is what Mbaku (2007) argues provide incentives for corruption. Zambia has not been spared these problems and it is on Zambia that the analysis now focuses.

4.3.8.1 Zambia's Corruption Perception Index (CPI) Ranking

The Corruption Perception Index (CPI)[98] is a system operated by Transparency International (TI) composed of twelve polls and surveys from nine different independent institutions that are used to accumulate the displayed ratings for each country (Radcliffe, 2010). The lower the ranking the better the country compares in relative terms. The CPI score indicates the level of public-sector corruption in a country/territory as perceived by business people, academics and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupt). Though some business communities view the CPI as controversial, Radcliffe (2010) argues that it is a useful tool that provides transparency especially when dealing with developing countries. As can be seen from Table 4.1, Zambia has a consistently poor ranking on the CPI, finding itself always in the bottom half, suggesting that the extent of corruption within its borders is both pervasive and persistent.

Table 4.1 Perceived Levels of Corruption in Zambia

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CPI Score	3.4	2.6	2.6	2.5	2.6	2.6	2.6	2.6	2.8	3.0
No. of Countries	90	91	102	133	146	158	163	179	180	180
Ranking	57	75	77	92	102	107	101	123	115	99

Source: Table constructed by author based on data from Transparency International (TI)-The Corruption Perceptions Surveys and indices (2000 – 2009); "CPI's Corruption Perceptions Index"

TI (2008) note Zambia's poor performance on the index, stating that:

> "Zambia performed consistently poorly in past iterations of Transparency International's (TI) Corruption Perception Index (CPI), scoring around 2.6 between 2002 and 2007, indicating that corruption in Zambia is consistently perceived as rampant and endemic by the various CPI sources" (TI, 2008).

Similarly, the World Bank (2004c) ranks corruption seventh on the list of constraints to doing business in Zambia while CIP (2009) cite corruption as a 'major' problem. The latter

[98] TI defines corruption as simply the abuse of public office for private gain (TI, 2009).

organisation argues that corruption costs the nation's businesses hundreds of dollars in lost time while the government loses millions in forgone tax revenue (see World Economic Forum, 2008)[99].

4.3.8.2 Corporate Governance as a Means of Fighting Corruption

Zambia's fight against corruption is co-ordinated via the Anti-Corruption Commission (ACC) an agency established to spearhead the fight against immoral conduct (ACC, 2009). Pereira (2008) advocates ethical corporate governance as a means of fighting corruption, arguing that while legal provisions are necessary in this context, they are not sufficient (see Okike, 2007). Similarly, Zambia's Deputy Finance Minister, Chileshe Kapwepwe, states that:

> " … each one of us, as stakeholders, has a role to play. For the private sector, this includes initiating internal reforms by way of embracing good corporate governance practices and pushing for policy reforms in areas where corruption is rampant. For civil society, it entails checks and balances by advocating for transparency in business dealings and transactions in both the public and private sectors" (Kapekele, 2010).

Despite the growing concern that corruption is linked to bad governance, very little has been done in Zambia to embrace robust corporate governance practices as an alternative to legal institutions (IODZ, 2009c)[100]. A focus on de facto corporate governance practices rather than de-jure rules has been suggested as an effective tool because this approach has at its heart the core values of accountability, transparency, fairness and responsibility that make it

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[99] According to the World Bank survey, Zambian firms spend an average of 1.7% of total revenue on bribes in order to get things done and an average of 3.7% of constant value for government deals (World Bank, 2004a). However, a survey conducted by the World Bank Enterprises Surveys (WBES) revealed that while in 2002 46% of firms identified corruption as a major constraint to doing business in Zambia, the figure had fallen to 12.5% by 2007 (World Bank, 2007).

[100] Although in 2007, Zambia's president acknowledged that the business community needed to engage in 'good' corporate governance practices as an alternative way of fighting corruption (Times of Zambia, 2007).

hard for individuals and companies to engage in corruption (Stapenhurst and Langseth, 1997; Anassi, 2004; OECD, 2004b; Mbaku, 2007; CIPE, 2008)[101].

4.4 Corporate Governance Initiatives in Zambia

A number of recent initiatives have been launched to support the development of an improved corporate governance system in Zambia. These include the creation of the Lusaka Stock Exchange (LuSE) in 1994 and the establishment of the Institute of Directors of Zambia (IODZ) in 2000, both of which are now described.

4.4.1 The Institute Of Directors of Zambia (IODZ)

The IODZ was established in April 2000 and was the first association established purely to promote high standards of corporate governance practices in the country. According to the IODZ, its focus is on promoting excellence in corporate governance, representing directors' interests (and facilitating their professional development), inculcating the highest possible standards of ethics and providing an effective voice for company directors as a way of supporting the economic well-being of Zambia. This initiative was applauded by donors and international funding organisations, some of whom use good governance as a condition for accessing their funds. Krasniqi (2008) observes that:

> "The Institute of Directors of Zambia (IODZ), a CIPE partner, is one of the leading organizations that have worked to institute and develop the concept of corporate governance in business practices in Zambia" (p. 11).

The IODZ has a stated commitment to promoting the practice of sound and effective corporate governance principles in all companies and organisations. To this end, it runs corporate governance courses and seminars for executive and non-executive directors, chief executives and senior managers in private and public companies as well as regulatory

[101]The United Nations Development Programme (UNDP) points out that corporate governance - as an alternative to legal remedies - goes beyond just fighting corruption, and also creates investor demand for enhanced transparency and accountability (UNDP, 1998).

institutions and NGOs (IODZ, 2009c). The institute is also working with learning institutions with a view to developing and running specialised academic courses in corporate governance[102]; sensitising Zambia's top companies and organisations by holding workshops and seminars on corporate governance, directorship and board effectiveness is one of their objectives (IODZ, 2009a)[103]. The IODZ have also been working with government officials on good corporate governance practices at state level as both the government and IODZ have recognised the importance of corporate governance in the economic growth of a nation (IODZ, 2009a).

4.4.2 IODZ's Corporate Governance Code for SMEs in Zambia

With the assistance of the International Finance Corporation (IFC), the support of the Centre for International Private Enterprise (CIPE), and in partnership with the Institute of Chartered Secretaries and Administrators (ICSA), the IODZ has developed a voluntary corporate governance code of best practice[104] (IODZ, 2009a). The code is targeted at small and medium enterprises in Zambia which remain under-developed, but contribute significantly to the creation of wealth for individuals and the country as a whole (IODZ, 2009a). The IODZ has raised concerns that as long as many SMEs operate outside the realm of the Lusaka Stock Exchange, widespread compliance with standards will remain elusive. In this context, it is viewed that in Zambia, like in most African countries, more value is likely to emerge from robust corporate governance codes created outwith stock exchanges because only a few companies would normally be listed thereon.

[102]The IODZ have just signed a memorandum of understanding with the Zambia Insurance Business College (ZIBCT) with a view to working towards the institution of a full-time course in corporate governance at the institution.

[103]Institutions that have benefited from such workshops and seminars include: Zambia Wildlife Authority; Roads Fund Agency; Roads Development Agency; Road Traffic And Safety Agency; National Airports Corporation Ltd; Programme Against Malnutrition; Zambian Breweries Plc; Energy Regulation Board; Barclays Bank Zambia Plc; National Council for Construction and; the Copperbelt Environment Project e.t.c (IODZ, 2009).

[104]The corporate governance code for small and medium-sized enterprises was also endorsed by the Lusaka Stock Exchange. The Lusaka Stock Exchange (LuSE) has included compliance with the code as a condition for SMEs listing on the LuSE.

In the introductory remarks to the code, the IODZ states that:

> "Zambia has embarked on an economic programme under the Private Sector Development Programme in which the economy is going to be driven by the private sector and which aims at attracting foreign investment. … Good corporate governance will go a long way in making Zambia a more attractive place to do business. …While corporate governance is principally viewed as a matter for large (and listed) companies, a reputation of good governance among the SMEs is also important…" (IODZ Corporate Governance Code, 2009 p. 2).

The code also focuses on the board of directors as gatekeepers of 'good' corporate governance practices. However, in the same way as Chulu (2006) raised concerns regarding the BOZ and LuSE codes, there appears to be nothing 'Zambian' in the IODZ code as the principles are simply a combination of a few selected 'good' corporate governance practices from other codes issued around the world; the extent to which the code is relevant in terms of addressing Zambia's business environment specificities is therefore a pertinent issue. This approach contrasts with the OECD's argument that individual countries' distinguishable legal, economic and cultural circumstances should influence the choice of corporate governance frameworks (OECD, 2004b).

4.4.3 The Lusaka Stock Exchange (LuSE)

Theory suggests that the primary role of capital markets lies in facilitating the allocation of scarce resources amongst competing uses (see e.g. Merton and Bodie, 1995). Demirguc-Kunt and Levine (1996) argue that a well-developed and organised exchange is a catalyst for economic development and can help defuse the dichotomy of ownership and control while the FSDP highlights the importance of a well-functioning financial market in a global economic environment, particularly as regards the allocation of resources and support for economic growth (Merton and Bodie, 1995; FSDP, 2004). The creation of the Lusaka Stock Exchange (LuSE) in February 1994, with preparatory technical assistance from the International Finance Corporation (IFC) and the World Bank, did indeed prove to be a major factor in the development and regulation of corporate governance in Zambia (LuSE, 2008)[105]. The establishment of the LuSE was part of the broader economic reform programme created to facilitate the privatisation process[106]. The development of stock markets is widely claimed to be a critical element in a financial system that encourages economic development (Demirguc-Kunt and Levine, 1996; Okeahalam and Akinboade, 2003). The specific corporate governance benefits to a nation of operating a successful stock market have also been recognised, particularly in terms of the role of institutional investors (UNEPFI, 2005**;** IFC, 2009a). However, Jordan and Lubrano (2002) argue that "the relationship of the capital markets to corporate governance is neither simple nor linear; rather, it is more in the nature of a complex feed-back loop, a dynamic process responsive to many factors" (p. 328).

4.4.4 The LuSE Corporate Governance Code

On 1st January 2005, a corporate governance code developed by the LuSE and endorsed by the IODZ became effective for all listed and quoted companies (www.luse.co.zm). In the preamble to the code the LuSE states that:

> "World over, the need for good governance has taken centre stage. …LuSE could not be left behind in this development as it realised the need for specific norms for our capital market. A capital market cannot be said to be functioning effectively without strict adherence to the principles of good corporate governance. The code is therefore intended to provide clear guidelines aimed at enhancing Corporate Governance as well as to obtain a baseline indication of core governance standards and practices in companies listed or quoted on the Lusaka Stock Exchange" (LuSE Corporate Governance Code, 2005 p. ii)

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[105] In its first two years of operation, the LuSE and the associated Securities and Exchange Commission (SEC) were funded by the UNDP and the Government of Zambia (LuSE, 2008).

[106] For the government the exchange came at the right time to facilitate the divestiture of government ownership in state-owned enterprises. As at 28 June 2010, there were 22 companies listed on LuSE, namely: African Explosives Zambia Plc, Zambia Bata Shoe Company Plc, British American Tobacco Zambia Plc, BP Zambia Plc, Cavmont Capital Holdings Zambia Plc, Copperbelt Energy Corporation Plc, Zain, Lafarge Cement Zambia Plc, Farmers House Plc, Farmers House Preference Shares, Investrust Bank Trust Plc, National Breweries Plc, Pamodzi Hotel Plc, Standard Chartered Bank Plc, Shoprite Holdings Ltd, Zambeef Products Plc, Metal Fabricators of Zambia Plc, Zambian Breweries Plc, ZCCM Investments Holdings Plc, Zambia National Commercial Bank, Zambia Sugar Plc and Zambia Sugar Rights Issue. Source: Lusaka Stock Exchange (www.luse.co.zm).

The detailed provisions of the LuSE code are built around nine themes: boards and directors; board committees; legal and compliance; external audit; internal audit; risk; integrated sustainability reporting; disclosure and stakeholder communication; and organisation and integrity. The code essentially takes the form of a collection of points from the most commonly-recommended practices in reports from across the world, including the Cadbury and King Reports (Chulu, 2006). In terms of enforcement and compliance, the LuSE code has adopted a 'comply or explain' mechanism, similar to that found in the UK, but the LuSE directive to all listed companies asking them to embrace the code received a mixed response (LuSE, 2009). The LuSE has further stated that its code must be made available to all stakeholders and be referred to in an annual report by way of the extent of compliance. The LuSE has made it clear that compliance with the code will be monitored and breaches properly dealt with, however a lack of appreciation for the concept has led to non-compliance by some business entities (Zambia National Assembly, 2008). Similarly, the absence of laws and regulation that are specific to corporate governance[107] - and, consequently, bodies to regulate and supervise corporate governance in Zambia - makes it a challenge for enforcement. Although most stock exchanges, particularly those in developing economies, suffer from the lack of a clearly defined and accepted economic rationale (Marone, 2003), the creation of the Lusaka Stock Exchange has been viewed by many as a suitable mechanism to enhance corporate governance and ensure that public companies adhere to best practice in their companies; this in turn should make companies in Zambia more attractive to investment and aid them in creating the wealth needed to support the economic well-being of the country (LuSE, 2009).

[107]As reported by the Zambia Parliamentary Committee on Governance – see Section 4.7.2 of this thesis.

4.5 External Corporate Governance Initiatives and Influences

Lungu (2005) argues that international forums have contributed significantly to the raised interest in corporate governance in Africa. In this context, several non-domestic initiatives have also contributed (directly or indirectly) to the corporate governance reform process in Zambia and these are outlined here.

4.5.1 The International Finance Corporation (IFC)

The International Finance Corporation (IFC) plays a major role in supporting African companies and encouraging improvements in corporate governance practices. The IFC has increasingly recognised how important sound corporate governance practices are in terms of providing a favourable investment environment and contributing to (private sector-led) development in Africa (IFC, 2009b). The IFC characterises its effort in this regard in Sub-Saharan Africa thus:

> "The IFC, through the Global Corporate Governance Forum (GCGF), cosponsors the Pan African Consultative Forum on Corporate Governance (PACFCG), which has been a cornerstone for raising awareness of corporate governance in Sub-Saharan Africa since 2001. Focus is now on a practical phase of activity geared towards improving corporate governance in the region" (IFC, 2009b).

4.5.2 The Commonwealth Association for Corporate Governance (CACG)

The Commonwealth Association for Corporate Governance (CACG) was established in April 1998 in response to the Edinburgh Declaration of the Commonwealth Heads of Government meeting in 1997 to promote excellence in corporate governance and business practices and facilitating the development of appropriate institutions through the Commonwealth (CACG, 1999a). In 1999, the Commonwealth Secretariat (and the World Bank) published its principles for corporate governance with the stated intention of improving corporate governance standards amongst Commonwealth members. Zambia, being a member of the Commonwealth since 1964, fully participates in CACG programmes such as workshops designed to promote corporate governance in Zambia (CACG, 2009).

For example, in 2003 Zambia Consolidated Copper Mines Investment Holdings (ZCCM-IH) adopted the Code of Corporate Governance for Boards of Directors in Zambia which is largely derived from the guidelines developed by the Commonwealth Association of Corporate Governance (ZCCM-IH, 2009)[108, 109].

4.5.3 The New Partnership for Africa's Development (NEPAD)

The New Partnership for Africa's Development (NEPAD) was established in 2001 as a strategic framework programme of the Organisation of African Union (OAU) and is intended to develop an integrated socio-economic development framework for Africa. NEPAD has been described as a strategic re-establishment of African countries, 'Made in Africa by Africans'. Corporate governance is one of the key prerequisites on the NEPAD list of requirements for African countries to move forward in their quest for sustainable development (NEPAD, 2009). NEPAD has a voluntary peer-review mechanism that allows countries' extant corporate governance practices to be reviewed (Makayi, 2009).

4.5.4 African Peer Review Mechanism (APRM)

The African Peer Review Mechanism (APRM), which traces its origins to NEPAD, is a self-monitoring mechanism voluntarily acceded to by member states of the African Union (AU) (APRM, 2009). One of the mechanism's main aims is the fostering of economic growth and sustainable development through the implementation of codes and standards of corporate governance. Zambia acceded to the APRM on 22nd January 2006 (APRM, 2009) and is

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[108]ZCCM-IH has implemented some of the recommendations outlined in the CACG code which aim to enhance transparency and accountability. The guidelines include the following:

1. The company is headed by an effective independent non-executive Board of Directors.
2. The Board monitors and evaluates the implementation of strategies policies, management performance criteria and business plans
3. The Board holds meetings regularly to discuss activities, policies or strategies related to the company's purposes and for which the Board is responsible.
4. The Board using its discretion has appointed the Audit, Remuneration and Investments Committees.
5. The Board ensures that all stakeholders are effectively informed about the operations of the company

[109]Wanyama et al. (2009) argue that corporate governance approaches in Africa are significantly influenced by the Commonwealth Association of Corporate Governance.

therefore required to produce a country self-assessment report to be reviewed by other member states with the aim of promoting transparency and accountability, and strengthening governance practices. In particular, four areas are assessed: (i) Democracy and Good Political Governance; (ii) Economic Governance and Management; (iii) Corporate Governance; and (iv) Socio-economic Governance.

4.5.5 Zambia's APRM Country Self-Assessment Report on Corporate Governance

To give a wider governance perspective to the report, participants are drawn from government, private sector and civil society. Zambia has so far managed to put together a National Programme of Action and a draft Country Self-Assessment Report**.** The report adopts a corporate governance definition similar to the one espoused by the Cadbury Report (1992) for the United Kingdom. The APRM Country Self-Assessment Report (2010) states that:

> "… in the Zambian context, corporate governance will be understood to refer to the system and practices through which an organisation directs and controls itself and the people associated with it, i.e., "a system by which corporations are directed, controlled and held to account" (p. 221).

There is also a clear realisation in the report that corporate governance affects not only the corporate community, but national economic performance as well; the latter represents the primary focus of the present study. Consistent with the available literature on corporate governance in Zambia, the APRM report acknowledges the fact that the concept remains fairly new in the country. Nonetheless, it identifies eight principles on which sound corporate governance practice is anchored and which therefore form the basis for the self-assessment of the country's corporate governance performance. These are: discipline, transparency, independence, accountability, integrity, fairness, social responsibility, efficiency and effectiveness[110]. In the report's view, these principles play a crucial role in

[110]A questionnaire survey conducted by the Country Self-Assessment Team on corporations' compliance with the eight principles generated the following results: discipline 52%; transparency 29%; independence 46%;

attracting the investment needed for economic growth in a market economy. Although the Zambian government has adopted and ratified a number of international standards and codes on governance[111], it appears that there is still a lack of political will. In this context, Wanyama et al. (2009) argue that the adoption and publication of governance guidelines alone is not sufficient to minimise corporate misconduct; only a fundamental shift in political and other frameworks will have leverage on corporate behaviour.

Consistent with the notion that current national practices leave room for improvement, the Zambia National Broadcasting Corporation (ZNBC), a state-owned organisation, currently operates without a board of directors. Other parastatal organisations including Zambia Railways Limited (ZRL) and Times Printpak[112] have also operated without a board, contrary to both the Companies Act and most common understandings of "sound" corporate governance practices (Auditor General's Report, 2008). In addition, the Zambia Postal Services Corporation (ZAMPOST) operated with only two board members instead of the required eight during the period September 2008 to April 2009. Undeterred by established corporate governance principles - local and foreign - the two board members proceeded to hold board meetings irregularly, netting K72,334,215 in the form of allowances without providing their minutes for audit scrutiny, again contrary to the law and corporate governance principles as stated in the three leading codes in the country.

This evidence is consistent with Chulu (2006)'s argument that any claims of embracing corporate governance in the country are mere rhetoric. According to the Auditor General's

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accountability 35%; integrity 23%; responsibility 37%; social responsibility 43%; and efficiency and effectiveness 46% (Zambian Country Self-Assessment Report, 2010 p.221)

[111]According to Zambia's Country Self-Assessment Report, the country has adopted the following International Corporate Governance Standards and Codes: NEPAD Framework Document; OECD and Commonwealth principles of corporate governance; IASs and IFRSs; Core Principles of Effective Banking Supervision; Core Principles for Securities and Insurance Supervision and Regulation; African Charter on Human and People's Rights; Thirty –nine (39) Labour Codes; Codes on Industrial and Environmental Safety and Hygiene; e.t.c.

[112]Zambia Railways Limited operated without a board during the period from January 2004 to March 2006 and Times Printpak operated without a board of directors for nine months from January to October 2007.

Report (2008), it can be argued that a lack of sound corporate governance practices in certain Zambian parastatal organisations has provided fertile ground for the emergence of vices such as questionable salary structures, tax evasion on retirement and gratuities, undelivered supplies, poor record keeping, failure to establish audit committees, failure to rotate auditors, non-remittance of statutory obligations, poor management and implementation of projects, failure to follow tender procedures, failure to renew board mandates[113] and, in some cases, the chairman sitting on all the sub-committees of the Board. The Auditor General's Report (2008) concluded by stating that:

> "As can be observed from the list of unresolved issues, there has been little or no follow-up action by the affected parastatals and it is likely that if timely action is not taken by the Executive, the unresolved matters will increase to the extent that recommendations of the Committee on Parastatal Bodies will be rendered meaningless" (p. 146).

Other challenges noticed in the Country Self-Assessment Report include the problem whereby although economic governance has evolved from government control to market economy, many of the laws responsible for sound corporate governance practices have not been revised in line with the challenges that accompany a liberalised economic system[114]. A lack appreciation of detail suitably trained and experienced human resource and institutional capacity in the institutions charged with ensuring compliance are other challenges identified in the assessment report. Notwithstanding these issues, Liche (2009) argues that insufficient country-wide research and consultation was carried out in preparation for the reports. Liche further highlights the voluntary nature of the APRM process as a weakness because failure to complete the process within the recommended time period does not attract any sanctions from peers. In this context, it is obviously difficult to claim credibility for the process of governance development, although Zambia's Fifth National Development Plan (FNDP)

[113]The ZNBC Board was appointed on 12th September, 2002, for a term of three years. Contrary to the Act, there was no evidence to indicate that the Board members tenure of office had been renewed for a second three year term ending on 11th September 2008. As of May 2009 the directors had continued holding office.

[114]"The third report on corporate governance in South Africa became necessary because of the new Companies Act no.71 of 2008 ('the Act') and changes in international governance trends" (Institute of Directors in Southern Africa, 2009 p. 5).

(2006) recognises that: "a positive APRM report will further enhance Zambia's opportunities of benefiting from more development aid from cooperating partners as well as creating investor confidence in the country" (p. 255).

4.5.6 The World Bank and the International Monetary Fund

The World Bank, in collaboration with other cooperating partners, has been working on strengthening public service and economic management by supporting the Public Expenditure Management and Financial Accountability (PEMFA) Programmes in Zambia; this involvement has the stated aim of improving effectiveness and institutional capacity in the public sector and strengthening institutional accountability (World Bank, 2009a). The IMF (2000) points out that strong economic performance and financial sustainability requires sound institutions and good governance; in this context, they have been promoting transparency and accountability and offering technical support as a way of championing robust corporate governance practices in public and private institutions in Zambia. More tangibly, certain IMF financial support programmes have specific governance conditionalities[115], and in attempting to fulfil these, the Zambian government has promised to institute the highest standards of corporate governance and transparency (IMF, 2000). The good governance conditionality archetype acts as a check to ensure that government promises are fulfilled.

4.5.7 The Global Corporate Governance Forum (GCGF)

The Global Corporate Governance Forum (GCGF) is a multi-donor trust fund facility founded by the World Bank Group and the OECD and operated via the IFC's Business Advisory Services (GCGF, 2009). Recognising that strengthening corporate governance is an essential part of creating the climate necessary for development, the forum aims to

[115]For example, IMF funding for the development of the electricity sector through a state-owned power utility company (ZESCO) has conditions that call for improving the efficiency and corporate governance of the utility company (IMF, 2009a).

promote corporate governance by initiating and supporting corporate governance conferences in partnership with the IODZ (GCGF, 2009).

4.5.8 Economic Commission for Africa - Southern Africa (ECA – SA)

The Economic Commission for Africa (ECA) was established by the United Nations (UN) in 1958 as one of the UN's five regional commissions to promote the economic and social development of member states. The commission, among other priorities, focuses on promoting good governance and the fight against corruption in Africa (UN-ECA, 2009). Through workshops, ECA-SA has been sensitising its members to the importance of corporate governance in accelerating Africa's economic development (ECA-SA, 2005).

4.5.9 The King Report

The King Committee's Report and Code of Practice for Corporate Governance in South Africa published in 1994 (revised in 2002) continue to stimulate corporate governance in Africa (Wanyama et al., 2009), including Zambia (ECA-SA, 2005; Fundanga, 2006). Both the LuSE and IODZ corporate governance codes have extensively referenced the King Report, emphasising the ethical, social and environmental issues raised therein (Fundanga, 2006). The IODZ has spearheaded the crusade to embrace corporate governance principles popularised in the South African King Report as the authors are viewed as being closer to the Zambian environment than those involved in other reports (Fundanga, 2006).

4.5.10 The Cadbury Report

The UK's Cadbury Report, published in 1992 for companies listed on the London Stock Exchange, has influenced the development of corporate governance in many countries, including Zambia (IODZ, 2009b). As the first King Report was framed on the Cadbury Report, the IODZ has also galvanised support for the latter indeed since the publication of the Cadbury Report numerous similar reports have appeared across the globe[116], with Dallas (2004) arguing that in fact all recent codes of corporate governance have been born out of Cadbury.

4.6 Development Aid and Corporate Governance in Zambia

4.6.1 Development Aid Failure in Zambia

The World Bank (2009c) noted that Zambia is one of several countries that have depended on grants and donor aid for a "lengthy" period. In the Sixth National Development Plan (2011), the Zambian government has reaffirmed the importance of development aid by stating that "development assistance will continue to constitute a vital financing source" (p. 15) through budget support. According to Odén and Wohlgemuth (2011), between 2000 and 2005 aid accounted for an average 43% (the highest being 53% in 2001) of the total Zambian budget (see Wohlgemuth and Saasa, 2008). However, Burnside and Dollar (1997) argue that aid has failed to spur any significant development in Zambia. Similarly, Andersson et al. (2000) note that, despite significant increase in both donor funds (rising to US$ 11 billion between 1991 and 1993) and the number of donor agencies (rising to about 150)[117], Zambia's economy has performed poorly. The authors cite a lack of transparency and governance and institutional reforms for the failure of aid in Zambia. A critical evaluation of economic policies in recipient countries before donors commit to aid for poverty reduction and growth is needed (Burnside and Dollar, 1997; Andersson et al., 2000). For Burnside and Dollar, the argument is based on empirical evidence that an upward trend in aid flow to Zambia (Andersson et al., 2000) was accompanied by a growing lack of coherence in fiscal and monetary policies; thus some scholars (Brautigam and Knack, 2004;

[116]Including in the UK itself where the 2012 "UK Corporate Governance Code" is the seventh overall code to emerge since Cadbury.

[117]The United Kingdom was the major bilateral donor during the 1970s, providing about 25% of Zambia's total bilateral aid (Simson, 1985) with the USA and Sweden contributing 15% and 13% respectively. Other donors include (West) Germany, Japan, Canada, Netherlands and Norway (Andersson et al, 2000).

Lamprecht, 2005; Fordvary, 2005; Booth, 2005; United Nations 2006; Shah, 2010) argue that aid dependency results in practice in waste and bad governance in many cases. In this context, the World Bank (1998) stated that "There is no value in providing large amounts of money to a country with poor policies" (p. 17).

4.6.2 Aid Conditionality a Means of Improving Governance

A World Bank Policy Research Report assessing aid revealed that countries with "poor" institutions and "bad" policies experienced failure with 52% of projects, four times the rate in countries with "good" governance (World Bank, 1998). According to the World Bank, donor finance that enforces accountability and good governance can spur development and good governance conditionality (Burnside and Dollar, 1997). Kaufmann and Kraay (2010) point out that: "Scholars, policymakers, aid donors, and aid recipients acknowledge the importance of good governance for development" (p. 2). Similarly, Presbitero (2008) argues that the Multi-donor Debt Reduction Initiative (MDRI) explicitly adopts governance conditionality, sometimes based on an ex-ante commitment by debtor governments, when selecting its recipient countries. As noted in Chapter Two of this thesis, under these terms Zambia qualified for cancellation of debt to the IMF, World Bank and Africa Development Bank, reducing the country's foreign debt from over US$ 7 billion to about US$ 500 million (Odén and Wohlgemuth, 2011). However, the governance conditionality has always been a source of conflict in Zambia, with donors frequently being attacked for raising concerns over accountability, transparency and the country's commitment to fighting corruption (Silwamba, 2009). Recently the Swedish government and other key donors withdrew their support from the (aid-driven) Ministry of Health in Zambia following revelations about the misuse of around K27 billion (£3.5 million) donor funds by certain government officials (Sinyangwe, 2009b).

4.7 The Corporate Governance Regulatory Framework in Zambia

4.7.1 Background

Corporate governance, as defined by Cadbury, is the process by which companies are directed and controlled (Cadbury Report, 1992) although Otobo (1997) argues that in practice this is subject to rules and standards that are themselves enshrined in corporate governance frameworks. For Otobo, the rules are meant to level the playing field for all participants in the market with this aim being underpinned by enforcement and compliance monitoring. Similarly, Tsumba (2002) states that: "Corporate governance depends on the quality of economic, regulatory, fiscal, institutional, and judicial structures, which in turn are influenced by a given country's political disposition" (p. 286) (see Wanyama et al., 2009). In this regard, the ECGI (2009) states that:

> "A proper governance framework is of fundamental importance in strengthening the performance of economies, in particular those in development and transition, and helping to discourage fraud and mismanagement"

Many authors argue that the quality of corporate governance is subordinate to the country's legal and regulatory frameworks (La Porta et al., 2000; Denis and McConnell, 2003; Berglöf and Claessens, 2004; OECD, 2004a; Berglof and Pajuste, 2005; Rossouw, 2005; Wanyama et al., 2009). For Berglöf and Claessens (2004) what separates developed and developing economies in this context is the administration of the rule of law. According to the OECD (2004b), an effective corporate governance framework should:

> "... promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory, and enforcement authorities" (p. 17).

Seamless fusion between the laws of a country and its corporate governance codes should be at the core of any proposed legal and regulatory framework (Wanyama et al., 2009). However, private law imposition is often favoured over public enforcement, particularly in countries with institutional deficiencies (Black and Kraakman, 1996; Hay et al., 1996; La Porta et al., 2006) given the contextual complexities, Berglof and Pajuste (2005) contend that corporate governance law and regulation should be as unambiguous as possible, including the enforcement thereof, and this is an essential requirement for meaningful reform. Whatever regulation is favoured, Denis and Connell (2003) argue it must be founded on strong accountability, responsibility, transparency and fairness. It is on these four core corporate governance principles that the IODZ code is founded. However, La Porta et al. (2000) note that: "When investors finance firms, they typically obtain certain rights or powers that are generally protected through the enforcement of regulations and laws" (p. 6), but the same authors point out that rules which protect investors are typically drawn from several different sources, including company law, security, bankruptcy, takeover competition laws and also from stock exchange regulations and accounting standards; this multi-layered system leads to differences in ensuring that a consistent set of founding principles emerges[118].

4.7.2 Zambia's Extent Legal and Regulatory Structures

As noted earlier, Zambia does not have any legislation that specifically addresses corporate governance (Zambia National Assembly, 2008). To the extent that corporate governance is legislated for, this occurs via the Companies Act and other commercial laws including the Banking and Financial Services Act and the Securities Act. However, the National Assembly Committee on governance pointed out that the Companies Act in its current form does not adequately provide for 'good' corporate governance practices and therefore calls for revision. For developing countries like Zambia, however, a lack of skills and institutional capacity represent challenges to any effective enforcement of the law. Similarly, the OECD guidelines propose that supervisory and regulatory bodies charged with such responsibility should have the power and access to the resources required to discharge their duties professionally.

[118]The World Bank (2010) - Doing Business report assesses how: confidence in levels of investor protection; the ease of doing business; and the ease of starting a business compare across countries. See Appendix 4.1.

In this regard, a study by Chulu (2006) finds the current Zambian regulatory framework defective in terms of its role as underpinning corporate governance structures, particularly with regard to board independence, director duties and enforcement[119]. In addition, while the foundations for an efficient system to handle court disputes exist, courts encounter numerous challenges in executing their role in practice (Kaufmann et al., 2003). A lack of commercial litigation experience amongst practitioners is one factor that impedes on the efficiency and transparency of the country's regulatory system (International Business Publication, 2008). Despite the UK Companies Act - on which the Zambian legal system is based - having undergone numerous legislative transformations, the 1948 UK Act remains extant in Zambia (Mwenda, 2001; Chulu, 2006). Here, Chileshe (1986) argues that:

> "... Shortcomings of certain laws like the Companies Act arose from their having been lifted literally from the old British Companies Act enacted in the 1920's and partially revised in the 1940s. Transplanting the Act into Zambia and expecting it to fit Zambian conditions without suitable changes was most unrealistic" (p. 142).

It follows that business in Zambia is hampered by outdated laws that do not reflect, and therefore cannot be applied effectively to, current business practice. Nonetheless, in the absence of specific legislation, the Companies Act, Cap 388 of the Laws of Zambia takes precedence.

> "The Act provides for the incorporation, management, administration and winding up of companies. The Act also provides for the registration of foreign companies doing business in Zambia and the registration of charges and matters incidental to the foregoing" (Zambia National Assembly, 2008).

Other laws, such as the Banking and Services Act, Cap 387 and the Securities Act, Cap 354 augment the Companies Act. However, in Zambia corporate governance regulation is vested mainly in the LuSE listing rules; although these are available to all companies, monitoring and compliance is restricted to companies listed and quoted on LuSE.

[119] Wanyama et al. (2009) report very similar evidence for Uganda.

4.7.3 Financial Sector Regulation in Zambia

The Zambian financial sector has been heavily affected by recent corporate scandals and failures (Maimbo, 2002b). As noted by Chiumya (2004), the regulatory framework governing the nation's financial sector has been extensively reviewed on several occasions, with a number of reforms on liberalisation, prudential regulation and supervision. However, much of the scholarly literature on failures in the financial sector in Zambia specifically incriminates the new reforms for the failures (Brownbridge, 1996; FSSD, 1996; Brownbridge, 1998; Maimbo, 2000; Maimbo, 2002a; Mwenda, 2002). For state-owned banks, Ngandu (2005) argues that political patronage was a factor in most appointments and CEOs appointed in this manner tended to dominate the entire board, disregarding a long-established corporate governance principle that no one individual or group of individuals should have "unfettered powers"[120] of decision. Similarly, Lungu (2005) points to the - since repealed - banking law that accorded politicians (through the finance minister) the power to nominate and discard CEOs and give general directives. The legal and regulatory framework is currently (as of 2012) composed of the Banking and Financial Services Act; the Bank of Zambia Act; the National Payment Systems Act; the Prohibition and Prevention of Money Laundering Act; the Bank of Zambia Anti-Money Laundering Directives; and the Bank of Zambia Corporate Governance Guidelines (Fundanga, 2010).

4.7.4 Bank of Zambia (BOZ) Corporate Governance Guidelines

Although there is no general agreement on banks' role in promoting corporate governance in client companies (see Tsumba, 2002), implementation of an effective system for sound corporate governance in the sector might reasonably be expected to encourage clientele to improve their practices. In recognition of the strategic importance of a sound financial system in Zambia's development the government, with the help of the World Bank and the

[120] UK Cadbury Code (1992).

IMF, carried out a comprehensive assessment of the country's financial sector in 2002. This programme gave rise to the Financial Sector Development Plan (FSDP), aimed at addressing weaknesses and further strengthening performance and growth. These reforms were followed by the establishment, in 2006, of a corporate governance code in the banking sector (BOZ, 2006). In the introductory remarks, the code states that: "Banks and financial institutions… occupy a special position of trust in the national economy and their corporate governance is therefore, a matter of paramount importance" (p. 1). The code is applicable to all banks and financial institutions operating in Zambia. Its main areas are: shareholders; ethical standards and corporate values; board responsibilities and composition; board committees; evaluation of board performance; roles of senior management; reporting and disclosure; remuneration; risk management; internal audit; internal control compliance; external auditors; stakeholder interests; board relationship with supervisors; and transparency (BOZ, 2006). However, FSDP (2004) identify a number of continuing corporate governance problems in the banking sector in Zambia, namely: a lack of 'quality' boards in a number of corporate bodies; the prolonged existence of interim boards; inappropriate shareholding structures; the same individuals presenting on several boards; the prevalence of dual CEOs; the lack of transparency in the appointment and removal of directors and chief executives; and weak legislation regarding private and public sector companies' disclosures. Interestingly, it is a defective and inappropriate legal and regulatory framework that has been suggested as being responsible for the more general poor performance and failure of state-owned enterprises in Zambia (Mulwila, 1980; Chileshe, 1986; Mwenda, 2003; Chulu, 2006).

4.8 Conclusion

This chapter has provided an account of the literature, rules and regulation relating to corporate governance in Zambia. On the basis of this account, the most important conclusions focus on the evident importance of the contribution that corporate governance plays in business prosperity and national development. In Zambia, as in many Sub-Saharan African nations, the realisation is taking hold that one of the most important tenets of meaningful economic development is corporate governance. Although corporate governance is a new concept in Zambia, the country has made significant strides in conceptualising the notion. In reality, however, it is extra-African stimuli that have led to these shifts in thinking, with the failures of major companies (especially in US, Europe and Asia) and the frantic efforts made to strengthen corporate governance in their wake acting as a catalyst for change in other parts of the world, including Zambia.

As noted in this chapter, Zambia has undergone three distinguishable economic governance phases: (i) the market economy established by the colonial administrators, with government aiming to provide a conducive environment for business (1960-1969); (ii) the command economy, with the state as the major player (1970-1990); and (iii) the return to a market economy in 1991. Each phase brought with it its own corporate governance implications and challenges. In the absence of a single, comprehensive set of specific corporate governance rules, the IODZ corporate governance code, the Banking and Financial Services Corporate Governance Guidelines (2006), the Lusaka Stock Exchange corporate governance code, the stock market's listing rules and Zambian laws (as provided for in the constitution, but also set out in the Companies Act) have mitigated its absence in the ways outlined here. What is clear from a consideration of the chapter as whole is that corporate governance has now become a topic of major importance for, and subject of much discussion in, Zambia. Given this context, the remainder of this dissertation attempts to explore how the notion is viewed at the present time, in terms, particularly, of its inherent nature and its potential role in Zambian life via the facilitation and the encouragement of economic growth and development.

CHAPTER FIVE

ACCOUNTABILITY THEORETICAL FRAMEWORK

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5.1 Introduction

Chapter Three of this thesis provided an extensive review of the literature relating to corporate governance and development, while Chapter Four examined the specific issues relating to the corporate governance environment in Zambia. The present chapter identifies a number of basic themes in the previous discussions that influence governance and development, and attempts to provide theoretical definitions and logically evaluate the relationships and factors that underlie the problem statement of the study. The chapter also examines some of the theoretical territory influencing 'good' corporate governance practices and accountability in broader terms. As stated in Chapter Four, since 1991 there have been major changes in the governance of the Zambian economy with the notion of accountability being central to the reforms taking place in the country (Therkildsen, 2001). Accordingly Erkkila, (2007) states that: "Accountability is increasingly becoming a topic of concern in governance literature" (p. 2). As pointed out in Chapter Four, the reforms stemming from the renewed interest in the governance concept are anchored on the resolve for greater accountability and better resource utilisation, assumed characteristics of the private sector. Such reforms are also supported by scholarly literature suggesting that private sector governance practices would enhance accountability and the control of public expenditure (Hopwood, 1990). Similarly, Mkandawire and Soludo (1999) maintain that reform initiatives in Africa, in particular the change from government control to private ownership of most enterprises, are espoused by the demand for efficiency and accountability and reduced corruption. The clear assumption here as alluded to in the previous chapter, is that firms under private ownership would be 'better' managed than under government control where governance and accountability are perceived to be very weak. In this sense, issues of accountability are very much a part of the governance and development relationship via the establishment of appropriate institutions and the employment of checks and balances. This study therefore conceptualises the problems entangling corporate governance and development in Zambian through the accountability lens; the latter's adoption as the theoretical framework that guides the study is explored in detail in the discussion that now follows.

The rationale for using accountability as a panorama rests on the theoretical assumption that there is no issue more central to good governance than accountability (Ndulu and O'Connell, 1999; ECA, 2002). Consequently, there is no issue more central to development than good governance (Kilgour, 1998; Kaufmann et al., 1999; Ndulu and O'Connell, 1999; Prasad et al., 2003; Akokpari, 2004). Accountability rests on the belief that actions and decisions taken by those entrusted with responsibility are subjugated to oversight, in order to ensure objectivity and responsiveness to the needs of stakeholders (Morland, 2006) thereby contributing to better governance and poverty reduction (Grindle and Mason, 2002; IFC, 2010; Rahman, 2010). In this context, the philosophical mental construct engages the postulate that accountability underpins good governance (Keasey and Wright, 1993). Similarly, McIntosh (2002) argues that good governance, accountability and transparency in the corporate community have become a public good on which our futures depend. Equally, Solomon (2007) points out the importance of accountability in corporate governance frameworks. Given the absolute centrality of accountability to discussions concerning governance and development, there appears to be a strong justification that addressing the issues surrounding accountability is essential in mitigating the challenges facing governance and development in Zambia. Indeed, matters of contention encircling governance and development are embedded in accountability and, as a consequence, any framework focused on dichotomising the governance-development dependency must seek refuge in accountability (Boven (2006). Resultantly, the concept of accountability has received growing theoretical appreciation, particularly in the field of social accounting (Gray, 2002).

Erkkila (2007) attributes the growing interest in accountability and governance literature to the emergence of new governance paradigms that challenge conventional accountability systems. Notwithstanding this change, both governance and accountability are contentious notions and hence suffer from a similar limitation in their application as they both have the tendency to represent many different things making the two terms susceptible to abuse (Boven, 2006). Because of this elusiveness and ambiguity, Boven argues that a number of users have sought refuge in accountability "to patch up a rambling argument, to evoke an image of trustworthiness, fidelity and justice, or hold critics at bay" (p. 7). The next section looks at accountability and some of the basic epistemological assumptions underpinning the current conceptions of accountability as a base for the current study.

5.2 The Concept of Accountability

The concept of accountability has always been elusive to define (Schedler, 1999). Mulgan (2000) refers to accountability as "a complex and chameleon-like term" (p. 555). This difficulty is partly due to the fact that in an accountability relationship, accountability can mean different things to different people (Dunne, 2003; Bovens, 2007; Fox, 2010). Accountability's multi-faceted nature makes it even more problematic to deal with in practice as a working concept (Dubnick, 2002). Indeed, MacCarthaigh (2005) argues that the widened usage of the term 'accountability' has made its meaning less clear and more problematic in the development of a parsimonious framework. It is because of this mystification that some scholars argue that 'accountability' if used as a word rather than a concept is ambiguous (Brooks, 1995; Mulgan, 2000; Erkkila, 2007). Dubnick (2002) argues that treating accountability as a concept rather than a word disposes of ambiguity and incommensurability[121], and retains its conceptual quality. Following up on the preceding arguments, and in the context of the current study, accountability is used as a concept so as not to distort its philosophical context as a theoretical framework for research. However, for Dubnick, accountability used in the appropriate context:

> "holds the promise of bringing someone to justice, of generating desired performance through control and oversight, of promoting democracy through institutional forms, and of facilitating ethical behaviour" (p. 2).

As accountability is thus a conditional concept, Scott (2000) argues that clearly stipulating 'who is accountable', 'to whom' and 'for what', is fundamental. However, the bottom line is that while there will always be controversies surrounding accountability, defining its parameters is the starting point towards greater conceptual clarity (Scott, 2000).

5.2.1 Defining Accountability

This section provides an overview of the range of purported definitions of the term 'accountability'. Accountability within its parameters overlaps with other terms some of which stray some distance from the underlying concept of being called to account for one's actions or inactions (Mulgan, 2000; Boven, 2006). Accountability is sometimes loosely defined to connote transparency, equity, democracy, efficiency integrity, responsiveness, answerability, controllability and responsibility (Mulgan, 2000; Behn, 2001; Dubnick, 2002). In this context, Boven (2006) argues that accountability, when loosely defined, encompasses other stand-alone notions making its conceptualisation controversially problematic. Definitions range from as narrow as just representing "the duty to give an account" (Schafer, 1999 p. 9) to broader notions, such as social, economic, political or moral propriety (Coy and Dixon, 2004). Similarly, Fox (2010) notes that definitions of accountability range from general (broad focus - see Munro, 1996) to narrow (where the

[121] Incommensurability is used here to mean the inherent lack of common "language" that permits easy translation of the word across contexts and cultures (Dubnick, 2002 p. 4). In certain languages, the word accountability does not exist.

focus is on specific issues - Berle and Means, 1932). In a narrow interpretation, Pollitt (2003) points out that accountability can be viewed as a reciprocal action between the accountor and the accountee, where the conduct of the accountor is monitored and evaluated by the accountee. However, Schedler (1999) refers to accountability as "a concept whose meaning remains evasive, whose boundaries are fuzzy, and whose internal structure is confusing" (p. 13). Although different definitions of accountability do exist, the notion that it involves two sets of actors remains undisputed. Gagne (1996) believes that the starting point to begin considering defining accountability is the identification of the stages of the accountability process, i.e. ''who is accountable to whom, for what and under what circumstances'' (p. 213).

Munro and Hatherly (1993) refer to accountability as: "…the willingness and ability to explain and justify one's acts to self and others" (p. 369) while Mulgan (2000) defines accountability as: "…a process of being called to account to some authority for one's actions', or a process of giving an account" (p. 555). However, Wanyama (2006) analyses accountability in three different contexts; accountability as the capacity to give an account for certain actions or inactions (see Munro, 1996); accountability in the principal-agent relationship (see Berle and Means, 1932; Jensen and Meckling, 1976; and stakeholder accountability (see Tirole, 2001; Solomon, 2007; Brennan and Solomon, 2008). The contextual implication for the first and second contexts of accountability is viewed as simply the state of being accountable or the liability to be called on to render an account. However, such an accountability process calls for some form of a structure that reminds and holds someone of the need to be accountable. Similarly, Gray (1992) believes that accountability is "concerned with the right to receive information and the duty to supply it" (p. 413). In this context, individuals, corporations and states discharge accountability through the provision of relevant information to interested parties that may have a legal right and those that may have a moral right. A few years later, Gray et al. (1996) formally define accountability as: "The duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible" (p. 38). This form of words suggests that accountability should be viewed as all-inclusive notion that goes beyond solely dealing with financial concerns. The conventional accountability associated with financial accounting is clearly identified as just one type of accountability in the Gray et al. (1996) articulation, but Boven (2006) challenges the above type of definition by insisting that accountability is more than just the provision of information. For Boven, what makes the actor accountable is the possibility of sanctions.

Similarly, some researchers argue that accountability that has no capacity to impose sanctions against those who are called to account is not complete (Burritt and Welch, 1997; Schedler, 1999; Mulgan, 2000). For Burritt and Welch (1997) giving an account without the consequential reparations on the quality of an account is defective; here the authors state that:

> "… giving of an account is not enough for an accountability relationship to exist; there has also to be a process for holding the accountor to account for actions taken and consequences incurred. Hence, enforcement mechanisms are crucial to accountability" (p. 533).

Endorsing this line of thought, Mulgan believes that accountability should not end with the provision of information, but should instead include sanctions as a punishment for unsatisfactory answers. Mainwaring (2003) goes beyond arguing for the provision for sanctions by including the legal enforcement dimension of accountability; he contends that the enforceability of sanctions through a legalised authority to request answerability adds credibility to the accountability process. Correspondingly, Bovens (2005) views accountability as composed of three essential factors: the obligation to give an account, the accountee's right to question the accountor and the accountee's right to implicitly enforce sanctions. In this context, Boven describes accountability as simply: "the obligation to explain and justify conduct" (p. 9). According to Tooley et al. (2009) an accountor and accountee can be an individual or an agency or even the general public, especially in the accountee case. Thus three distinct stages have been identified in the accountability process - the obligation to provide an account, the possibility of sanctions and the enforceability of sanctions. Gray (1994) also argues that accountability should reflect some notions of fairness and justice; the inclusion of the enforceability of sanctions in the definition raises this issue directly. In particular, people should not be held accountable and later have sanctions imposed on them for matters over which they have very little or no control at all. The above reasoning points to the fact that relationships - whether formal or informal - in the accountability process have to be clearly identified and established.

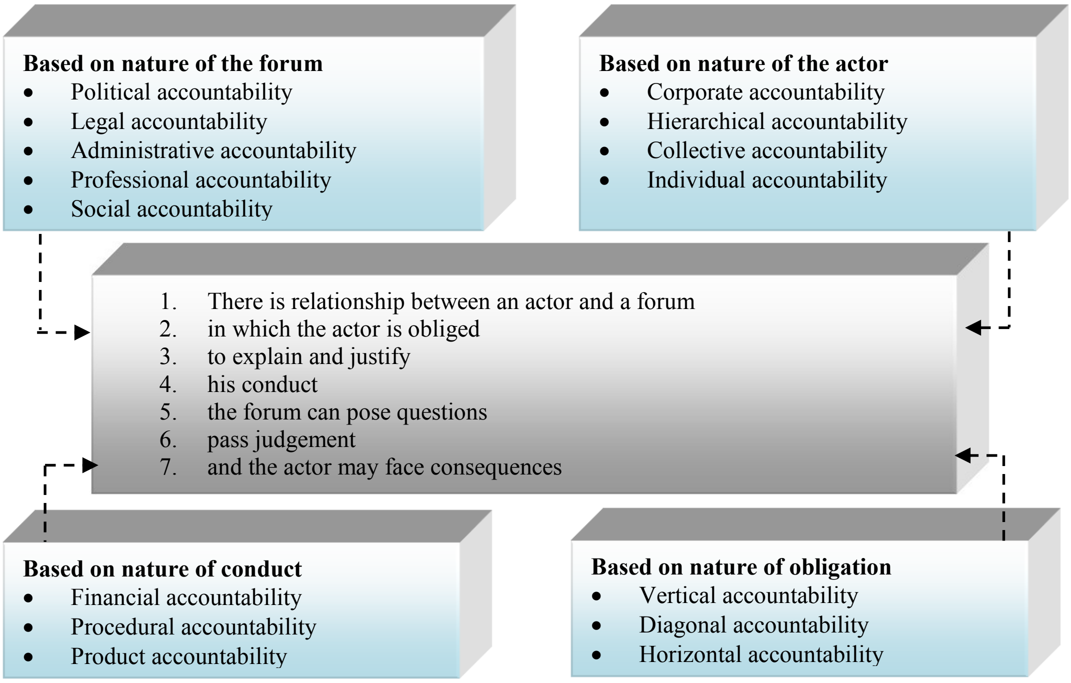
While Dubnick (2005) applauds the above definitions, he argues that they do not stress the element of personal values and ethics (personal accountability) which he suggests are cardinal in any accountability process. Analysing this argument, the accountor appears to have two important roles to play in the accountability process; one of self-control (responsibility) which is anchored in the notion of personal ethics, and one which specifies a duty to another party (accountability). While it is difficult to enforce the former (Likierman, 1986; Day and Klein 1988)[122], the latter can be relatively easily (Mainwaring, 2003). Notwithstanding this point, the available literature appears to suggest that accountability is not only espoused by the duty to provide and the right to receive an account, but also the institutional arrangements whereby conceptualisation is influenced by structural changes (Peters, 1989; Sinclair 1995; Mulgan, 2000; Dubnick 2005). In this context, different institutional arrangements give rise to different types of accountability.

[122]Personal accountability is not unambiguous in nature, but often viewed as accountability to oneself or one's conscience (Day and Klein, 1988)

5.2.2 Types of Accountability

As alluded to earlier in the chapter, the widespread usage of the term *accountability* has resulted in the emergence of different types (Mulgan, 2000; Behn, 2001). Within the broad context of accountability, scholars argue that different categories can be identified based on the nature of conduct, obligation, accountee and accountor, both in the private and public sectors (Stewart 1984; Day and Klein 1988; Romzek and Dubnick 1987; Sinclair 1995; Bovens 2005). The transformation of accountability has witnessed the concept emanating in different dimensions (Roberts and Scapens, 1985; Sinclair, 1995). The multi-dimensional perspective of accountability has led to the emergence of different types such as political, bureaucratic, personal, professional, deliberation, internal, external, public, vertical, horizontal and so on. While there are various types of accountability, Jones (1992) contends that the process of being called *to account* to some authority for one's actions remains undisputed. Boven (2006) summarises the various purported dimensions of accountability as follows:

Figure 5.1 Types of Accountability



Source: The figure is constructed based on the details provided by Boven (2006, pp. 12 and 22).

The classification in the top left rectangle focuses on the identity of the accountee in the accountability process (Sinclair, 1995; Behn, 2001; Pollitt, 2003) while the top right rectangle classification is based on who the accountee is holding to account (Bovens, 1989; Romzek, 2000). Bovens (2005) refers to the bottom right rectangle as directional while the nature of conduct is illustrated in the bottom left rectangle. The rectangle in the centre prescribes the conditions that need to be met in the accountability process regardless of the dimensional perspective and implies that accountability may be dictated or implied by law, regulation, or agreement. Endorsing this notion, Ijiri (1975) affirms that "a constitution, a law, a contract, an organisational rule, a custom or even an informal moral obligation" (p. ix) may confirm the existence of an accountability relationship. Accountability relationships can be enforced by both moral and legal rights; for example, Stanton (1997) believes that stakeholders with non-binding legal rights can claim the right to accountability based on moral courage.

5.2.3 Accountability to Whom and for What?

Earlier in this chapter it was noted that the accountability literature broadly agrees that to be accountable is to be responsible to others for what we do (Leat, 1990; Merrifield, 1998). In this context, Mashaw (2006) identifies three features of the actions between the accountor and the accountee thus: what the accountor is accountable for; how accountability is discharged and by what standards. Similarly, understanding one's responsibility in the governance framework helps in identifying to whom and for what the accounter is accountable. This point is amplified in the Chartered Institute of Public Finance and Accountancy (CIPFA) Good Governance Standard for Public Services which states that:

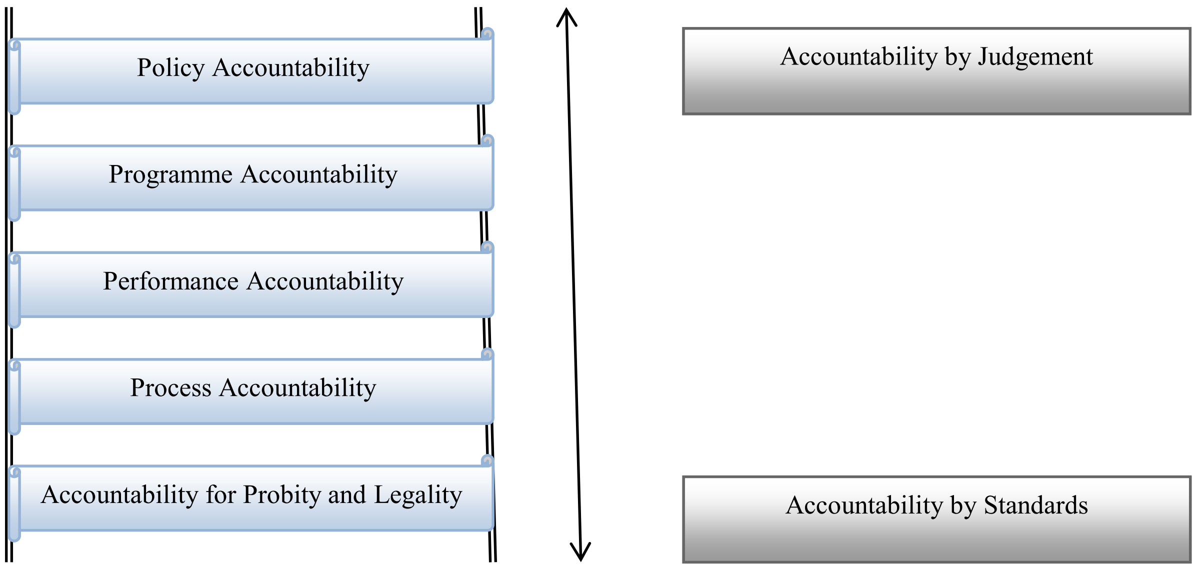
> "Being clear about one's own role, and how it relates to that of others, increases the chance of performing the role well. Clarity about roles also helps all stakeholders to understand how the governance system works and who is accountable for what" (CIPFA, 2004).

However, different perspectives exist conceiving the level of accountability that is expected in various situations. Those who demand an account may vary in the nature and veracity of sanctions that they can impose on the provider of an account (accountable organisation) (Leat, 1990). Individuals, organisations and governments may be held accountable for: (i) the proper use of resources, for example, the need to account properly and fully for the money spent (fiscal accountability or accounting for probity, Robinson, 1971); (ii) for following proper procedures, for example, the need to ensure that projects are carried out in an agreed manner (Leat, 1990) (Process accountability); (iii) to improve performance (performance accountability) (Merrifield, 1998); (iv) to improve the quality of work, for example, to ascertain whether an organisation achieved what it set out to achieve (Leat, 1990) (programme accountability); (v) the relevance or appropriateness, for example, providing the 'right' services or doing or saying the right thing (Leat, 1990) (Policy accountability/accountability for priorities). Leat (1990) maintains that those who demand accountability may differ according to what they regard as important, whether their interest is related to matters of probity or whether it encompasses wider concerns relating to matters of performance or policy. Similarly, organisations may also restrict themselves to being accountable to certain groups for limited matters while accounting more widely for other issues. For better understanding of broadened accountability, Stewart (1984) reconstructs the different accountability systems in form of a ladder, to which the discussion now turns.

5.2.4 Stakeholder Accountability and Stewart's Ladder of Accountability

Stewart (1984) maintains that for accountability to be meaningful, recognition of values, beliefs and awareness of those to whom the account is provided is critical. For Africa, where corporate governance and accountability seems to be influenced by cultural beliefs and communitarian values, accountability should be extended to a wider spectrum of non-shareholding stakeholders (Wanyama, 2006). Although originally conceived within a public sector context, Stewart's Ladder of Accountability has previously been expanded to analyse managerial and commercial notions of accountability (Wanyama, 2006; Fox, 2010). Indeed Wanyama (2006) argues that Stewart's Ladder of Accountability is most suitable for analysing accountability (particularly in Africa) in economies characterised by private and state-owned enterprises. Indisputably, it is this distinctive feature of Stewart's Ladder of Accountability that makes it relevant for the study of corporate governance and development in Zambia. Focusing on the work of Stewart (1984) Fox (2010) suggests that movement up the ladder represents a transition from a more objective notion of accountability (accountability by standards) to a more subjective accountability (accountability by judgement). According to Wanyama (2006), the first level on the ladder relates to ensuring that consumed resources were authorised and utilised for the intended purpose in compliance with the law. As noted in Chapter Four, one of the most prominent problems affecting Zambia's development is the presence of rampant corruption. The implication here, therefore, is that resources meant for development may not be accounted for because of a lack of robust accountability.

Figure 5.2 Stewart's Ladder of Accountability (1994)



Note: This Table displays the five levels of Stewart's Ladder of Accountability

The second rung of Stewart's Ladder is process accountability, which deals with accounting for processes leading to certain judgements and decisions being made (Lerner and Tetlock, 1999). Process accountability ensures that those who are called to account follow laid-down procedures (Laughlin, 1990). This type of accountability is believed to enhance the accuracy of judgements (Siegel-Jacobs and Yates, 1996). However, the consciousness under process accountability is that of being accountable for the process and not for the outcome (Scholten et al. (2007).

Performance accountability on the other hand is output - or client - oriented (Erkkila, 2007) and deals with the responsibility for achieving results. A performance accountability system provides the means of measuring results against standards. In this context, it goes beyond process accountability (Merrifield, 1998). However, measurement is of particular concern to performance accountability, and Merrifield (1998) argues that the following principles must be considered when assessing performance accountability: (i) agreement must be reached on what constitutes performance; (ii) mutual accountability relationships must be built; (iii) the capacity both to perform and be accountable must be developed; and (iv) tools to measure performance, involve stakeholders and seek consensus need to be created. Merrifield (1998) further argues that agreement on these principles (and clarity about the ultimate goals and capacity to achieve them) is fundamental for performance accountability to succeed. In the absence of performance benchmarks, or if the stakeholders are not aware of the nature of performance measures utilised, Stewart (1984) asserts that attempts to enforce accountability are not straight-forward. While company boards may set out objectives and monitor management performance (Wanyama, 2006) these issues may be more difficult to co-ordinate at a governmental level.

Merrifield (1998) views programme accountability as a subset of performance accountability as it aims to enhance performance. Similarly, Wanyama (2006) finds a very thin line between the two as they are both based on achieving the stated objectives and are applicable to public and private sectors and the issue of whether or not objectives are achieved. Programme accountability receives little attention because its application in many areas of work is complex and as a result accountability is mostly demanded by end users and not financiers (Leat, 1990).

Policy accountability involves pursuing appropriate policies that suit the needs and priorities of society, that is ensuring that appropriate policies and decisions have been taken and judging whether they have been effective in attending to their intended objectives. However, Stewart (1984) viewed policy accountability in terms of governments pursuing policies in the interest of the majority of stakeholders. In this context, Wood (2005) argues simply that governments should be held responsible and accountable for policy choices while Mainwaring (2003) maintains that people who are elected to government are accountable to the governed for their decisions. Thus, political accountability is viewed as a control of abuse of political power and therefore prevents government officials from practicing policies opposed to good governance. Wanyama (2006) argues, however, that since Stewart's Ladder of Accountability is not restricted to one sector, policy accountability cannot be aligned to government policy alone as it is relevant to the public and private sectors as well. In this context, executive boards should be accountable for policy choices because of the policy's wider implication for company performance, while governments should be held to account for policy failings by means of political checks and balances (Wood, 2005). In this sense it can be argued that the quality of policy choices is enhanced by broad stakeholder participation (Blair, 2000). Blair further contends that inclusive transparent popular debate about policy has remained elusive on the African continent leading to inappropriate policy decisions, allowing most governments to avoid accountability to their electorates (see e.g. Wood, 2005). Yet inclusivity and transparency in policy evaluation and implementation is considered crucial in enhancing accountability (Wood, 2005).

Stewart's Ladder of Accountability demonstrates that there are different types of accountability at individual, organisation and government levels with varying strengths and demands for accountability. They are all inter-linked in one way or another. Clearly all these levels of accountability are important, and improvements in corporate governance could be made in respect of each. Correspondingly, Ackerman (2003) points out that accountability of public officials is the basic pre-condition that guarantees good governance. Having discussed the conceptualisation of accountability, the discussion now moves to the latter's links with corporate governance, an issue at the heart of the study's empirical enquiry.

5.3 Corporate Governance and Accountability

Broad notions of corporate governance have been articulated in detail in previous chapters. This section, however, reviews the implications of accountability from a corporate governance perspective. The modern corporation and the separation of ownership and control espoused by Smith (1838) and Berle and Means (1932): agency theory, as theorised by Jensen and Meckling (1976); and stakeholder theory as pioneered by Freeman (1984) are some of the leading theories marking the genesis of and catalysts for current debate on accountability. The recent past has witnessed an upsurge in research devoted to corporate governance in a wide variety of disciplines with a continuum of definitions ranging from those focused on addressing the principal-agent problem (Solomon, 2010) to those that focus on accountability to a wider constituent group (Dunne, 2003). The growing inter-connectedness amongst these approaches, coupled with the diversity of interest in the notion, has turned corporate governance into an interdisciplinary subject which perhaps requires an interdisciplinary and an anti-traditionalist reasoning (Gilson, 1996).

Traditionally, corporate governance is rooted in agency-theory logic and is concerned with ensuring that the assets of the owners of firms are safeguarded and used efficiently in the interests of owners by those entrusted with the control. This construction has the potential to create tension between managers and the owners (Jensen and Meckling, 1976); indeed it is the notion of management providing an account to the providers of finance that gives birth to the agency concept (Berle and Means, 1932; Donaldson, 1963; Jensen and Meckling, 1976) and the need for accountability - which many scholars view as the traditional starting point for debate about corporate governance (Berle and Means, 1932; Donaldson, 1963; Jensen and Meckling, 1976; Hart, 1995; Byrd, et al., 1998). Agency theory, according to Brennan and Solomon (2008), has played a significant role in the choice of a theoretical framework, particularly in area of corporate governance and accountability.

Proponents of agency theory such as Shleifer and Vishny (1997) argue that the theory gives credit to corporate governance as effectual if the suppliers of finance to corporations are rewarded accordingly and appropriately. This type of accountability involves the corporate form where the principal (owner) demands an account of the agent's (management) actions in a corporate set-up to ensure there is an alignment between the interests of the agent and those of the principal. According to Keasey and Wright (1993), accountability is required in such an arrangement to allow the principal to monitor, evaluate and control the behaviour of organisational agents. By definition, responsibility for corporate governance rests with the board of directors. The directors control and direct the company on behalf of shareholders and are in turn expected to account for the actions and use of resources. In this context, the theory has been cited as explaining controversies surrounding the relationship between shareholders and directors in the modern corporation. Corporate governance has conventionally been viewed as a mechanism for resolving the principal-agent dichotomy (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983; Langevoort, 2001; Tirole, 2001; Brennan and Solomon, 2008). For Brennan and Solomon**,** this contextual approach influenced early writers on corporate governance, who viewed it as a cure for the tension between management and company owners; most corporate governance reforms, particularly in developed countries, are crafted with a view to diffusing this tension (Gilson, 1996; Bushman and Smith, 2001; Vinten, 2001). Agency theory is thus pertinent to any corporate governance debate as it predicts (and influences) the structure and composition of boards and (more generally) the balance of power between capital providers and directors (Cadbury, 2002). However, Dunne (2003) refers to the traditional corporate governance definition that focuses on the relationship between the company and its owners as narrow and perhaps outdated. Similarly, Gilson (1996) maintains that such an approach is disregarding of corporate governance systems in other countries with different institutional characteristics.

The principal-agent problem is however important when the separation of ownership and control is coupled with a lack of (or weak) investor monitoring and protection mechanisms (Jensen and Meckling, 1976; Iskander and Chamlou, 2000). The governance implications of such a situation are clearly non-trivial; nonetheless, it is agency theory that continues to dominate academic analyses of firm behaviour, particularly (but not exclusively) in the developed world. Africa has not been immune to this pattern which, when combined with the abuse of governance mechanisms, results in frequent conflicts[123] (Wanyama, 2006). Consistent with this argument, in Zambia, where conceptualisation of corporate governance is development-oriented and whose institutional characteristics depart extensively from that of developed nations; reforms that revolve around the principal-agent theory appear to be

[123]and as indicated in Chapter Four

narrowly-focused. A much wider perspective of corporate governance that is accountable to a variety of stakeholders is thus more relevant. While the Cadbury definition of corporate governance has formed the basis of corporate governance codes the world over, this study adopts Solomon (2010)'s definition, whereby the concept, visualised to encompass checks and balances[124], is anchored on broadened accountability[125] and social responsibility[126] in all areas of commercial *perfervidum aingenium,* thereby bringing it in tune with Africa's long-standing societal notions of corporation and communitarianism (Wanyama et al., 2009). The reason for this choice is that a corporate governance definition for the African context must be able to address a wider range of stakeholder interests and discharge accountability to all stakeholders. This description fits in well with Solomon's definition of corporate governance.

5.3.1 Accountability as an Element of Good Governance

Boven (2006) argues that accountability is now viewed as an element of good governance both in the public and private sectors and has thus become the focus of much attention. Similarly, Keasey and Wright (1993) posit that accountability is essentially a sub-set of governance. In fact, Boven observes that most American scholars occasionally use accountability to denote good governance. While, Mulgan (2003) contends that accountability is a concept associated with governance activities in the context of establishing and maintaining some form of governing order. The Audit Commission (2009) links both concepts when it defines good governance and accountability thus: "Ensuring the

[124]Africa is characterised by opaque governance institutions with barely any checks and balances on public accountability, thereby promoting corruption (Shkolnikov, 2002).

[125]Africa has been calling for a broader governance paradigm to accommodate the continent's complex cultural, political and economic factors (Wanyama et al., 2009).

[126]One of the priorities in the King Report of South Africa is social responsibility (IoDSA, 2002). Similarly, the privatisation of Zambia Consolidated Copper Mines (ZCCM) sparked discussions regarding corporate social responsibility (Lungu and Kapena, 2010) particularly Li (2010) contends that Chinese companies operating in Zambia have earned themselves a bad reputation in this regard.

organisation is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner" (p.3). The Commission's view is that if scarce resources are to be maximally utilised, and if public money is to be spent economically, efficiently and effectively, securing good governance and accountability is critical. Accountability is thus viewed as an essential quality of good governance. In this sense, researchers in the area of good governance and development appear to suggest that accountability underpins economic development (World Bank, 1997; Bresser and Spink, 1999; Rose-Ackerman, 1999; Schedler et al., 1999; Pope, 2000). As a characteristic of good governance, the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP) (2010) believes that accountability ensures that the interests of minorities are secured and corruption is minimises. As outlined in the previous chapter, rampant corruption has been identified as one of the major problems frustrating development in Africa and accountability in this sense may help minimise the opportunities for corruption both from the demand and supply side. This need for accountability is expanded upon in the next section.

5.4 Accountability, Corporate Governance and Development

For Africa in general, and Zambia in particular, corporate governance is conceptualised in terms of a development paradigm (Reed, 2002), focusing on addressing accountability to different stakeholders rather than as a solution for an agency problem. Despite overwhelming acceptance that corporate governance is a key element in development[127], studies that associate corporate governance with Africa and Zambia's development in particular are very scanty; this study attempts to address this gap. As discussed in Chapters Four and Five of this thesis, it is becoming increasingly clear that the upsurge in concern for greater accountability in Africa has been driven by a postulated link between 'good'

[127] As outlined in Chapters Three and Four of this thesis.

governance and accountability and economic development. Massive corruption, mismanagement and the disappointing development record are other reasons cited for the desire for enhanced accountability (García, 2001). According to the World Bank (1992), accountability is a critical factor in enhancing good governance. Similarly, governance discussions are incomplete without mentioning accountability (Boven, 2005). The general frame of reference is that those entrusted with the control of resources, corporate or government, should be held accountable for their actions or inactions. However, in the absence of a system of accountability, corruption, bribery, financial crimes and mismanagement are the order of the day (García, 2001). There is an assumption that both government and private organisations are accountable to wider stakeholder groups that depend on them for their psychological and physiological needs (Trinkaus and Giacalone, 2005). While a number of factors have been cited for Africa's governance problems, García (2001) argues that lack of accountability is one critical factor that frustrates development.

5.4.1 Key Thematic Issues

The previous chapters have illuminated a number of themes that catalysed the work contained in this thesis. While governance provides a wide conceptual grounding, this study focuses on the corporate aspects of the broader notion. As a trademark of corporate governance, Gray et al. (1996) argue that accountability brings forth transparency which ultimately engages organisations and their actions into unanimity. This conjunction between actors and their actions, according to Gray et al., promotes responsibility by diffusing the conflict of interest which is at the heart of (for need for) accountability, a process Gallhofer and Haslam (1996) and Gray et al. (1996) refer to as 'emancipatory' and 'evolutionary'.

5.4.2 Corporations as Principal Generators of Economic Wealth

The central theme that appears to be prevalent in the literature here is that corporate governance, as a component of (general) governance, plays a critical role in economic development (NEPAD, 2007). This argument is based on the premise that today's corporations have become the wealth generators and are therefore the engines of any country's economy (Wolfensohn, 1999; Oman, 2003; Charkham and Ploix, 2005; Okike, 2007). Corporate governance has therefore assumed the critical role of enhancing firm performance as it affects the financing choices of a firm, shareholder value maximisation and, ultimately, affects economic growth. Here, Solomon (2010) argues that the positive impact of corporate governance on corporate performance and the well-being of society cannot be exaggerated. In this context, scholars postulate that the governance of corporations has become a focal point in economic recovery (Ireland et al., 2001; Nestor, 2001; Oman, 2001; Hart et al., 2003; Coglianese et al., 2004) and therefore the mechanisms of their direction and control have become worldwide issues. In the governance and development context, firm performance has been identified as being central to development (Cadbury, 1992)[128] and one of the principal objectives of corporate governance is that of enhancing firm performance (Oman, 2001). Similarly, McIntosh (2002) emphasises that the future of many countries will be modelled on the performance of the corporate community; McIntosh argues that poor corporate management in the face of global economic tones is no longer an option. From a broader perspective, McIntosh (2002) maintains that 'corporate society' should be viewed in the context of being part of the solution to economic challenges that have enslaved many developing countries.

The state of an economy is usually assumed to rest on the performance of its public, private and state-owned enterprises that generate wealth and create employment for the people and remove them from poverty (McIntosh (2002). The emphasis therefore should be on the (philosophical) aim of establishing an affirmative link between corporate governance and corporate performance with a view, as Dunne (2003) argues, to balancing the many

[128]Sir Adrian Cadbury points out that "it is the growth potential of such firms which is crucial to improving the economic prospects of countries in the course of development" (Claessens, 2003 p. v).

competing considerations of different stakeholders as well as the well-being of society. The discussion in Chapter Four suggests that most development problems in Zambia are governance-related, accountability's role as a focus for attempts to reshape and reinforce good governance standards is the view taken by this study.

5.5 Why Corporate Governance Matters to Development

A well-established body of research has for some time acknowledged the increased importance of a robust corporate governance framework for economic development and well-being (see Cadbury Report, 1992; King Report, 1994; CACG, 1999b; OECD, 2004b). These widely cited reports and standards embrace development as the fundamental objective for corporate governance reform. In the UK context, the Cadbury Report (1992) states that:

> "The country's economy depends on the drive and efficiency of its companies. Thus the effectiveness with which their boards discharge their responsibilities determines Britain's competitive position. They must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability. This is the essence of any system of good corporate governance" (p. 10).

Similarly, CACG (1999b) links corporate governance to economic development as follows:

> "Corporate governance must be seen to facilitate, and engender, economic growth and prosperity but not at the expense of integrity. It is on this basis that the emerging economies of the Commonwealth should develop sufficiently to participate meaningfully in the global economy. This must remain the pre-eminent objective of Commonwealth countries" (p. 4).

Consistent with the other reports, the OECD (2004a) argued that:

> "Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence" (p. 11). "The corporate governance framework should be developed with a view to its impact on overall economic performance… " (p. 17).

There is thus a general understanding that corporate governance is important in helping countries create wealth, jobs and long-term competitiveness in the global economy. Advocating best practice in Commonwealth Countries, the CACG believes that corporate governance should play a greater role in facilitating economic growth and prosperity, a process in which transparency and accountability are essential characteristics.

5.5.1 Corporate Governance as a Precondition for Attracting Capital

Sir Adrian Cadbury argued that private capital has become the prime source of funds for investment[129]. Investors need assurance that their investment will be protected and corporate governance plays an important role in creating this confidence. According to the GCGF (2003), lenders and investors seek refuge in good corporate governance principles. This view was also reflected in a recent McKinsey survey where the findings indicate that the majority of investors are willing and prepared to pay a premium for good corporate governance practices particularly in developing economies characterised by higher risks of investment, while a third of the investors would avoid countries with poor corporate governance altogether (McKinsey Consulting Group, 2002). Okeahalam and Akinboade (2003) contend that Africa's perceived status as "a high-risk continent by investors" (p. 11) is largely due to its institutional deficiencies. Some of these deficiencies include lack of respect for property rights, for example, the grabbing of farms in Zimbabwe[130]. In addition, the degree of uncertainty provoked by the political instability that characterises most African states appears to discourage long-run investment on the continent (Ndulu and O'Connell, 1999).

Generally, firms in developing countries rely heavily on national development banks for financing (Arun and Turner, 2009). However, Oman (2001) argues that the recent past has seen a decrease in this trend with many firms now focusing on corporate governance institutions as an alternative structure of re-directing investment finance to firms[131]. Similarly, Claessens (2003) asserts that as the allocation of capital becomes more complex,

[129]Sir Adrian Cadbury quoted in Claessens (2003 p. v)

[130]The grabbing of farms from most white farmers in Zimbabwe, with the blessing of the government, is one such example of a failure to protect property rights; corporate governance can only flourish in an environment where property rights are guaranteed (Carver, 2003; Mandaza, 2006; Acocella and Jones, 2005).

[131] For example, the setting-up of the Lusaka Stock Exchange in 1994, to facilitate the divestiture of SOEs and the creation wide shareholding ownership and the subsequent establishment of a corporate governance code in 2005 (LuSE, 2008).

the establishment of better corporate governance practices is inevitable as the current market-based investment process is underpinned by good corporate governance (Oman, 2001). Corporate governance plays a central role in helping firms access finance for their investment activities at a lower cost especially with the diminishing of traditional sources in the face of the liberalisation and deregulation of markets (Oman, 2001; Claessens, 2003). This tendency raises another aspect of financing that relates to development. It was pointed out in Chapter Four that development aid appears to be a regular feature in the Zambian national budget, but with donors demanding far greater accountability and good governance, foreign assistance (in so far as it relates to development) cannot be ignored in the corporate governance and development discussion, and it is to this matter that the discussion now turns.

Development aid has failed to leave a mark in most developing countries (Booth, 2005; Lamprecht, 2005) partly due to poor corporate governance practices therein. By improving corporate governance, countries become more attractive to development aid (Lamprecht, 2005); aid which plays an important role in nations characterised by high poverty levels (Mistry, 2002). Mistry's argument[132] is based on the assumption that it is impossible in practice to reduce poverty through private capital; corporate governance therefore intervenes in the wastage and misallocation of scarce resources by ensuring an effective and efficient allocation (Rahman, 2010).

Sound corporate governance practices are fundamental to Africa's economic recovery as they play a pivotal role in macroeconomic stability, the transparency and accountability of public management functions, and the creation of investor confidence (Amoako, 2002; OECD, 2004a). According to the OECD (2004a), an effective corporate governance system

[132]Observations and recommendations of the Zedillo Panel Report.

both at the individual company level and across an economy as a whole, provides safeguards that underpin the proper functioning of a market economy, such as lowering the cost of capital and ensuring the efficient utilisation of scarce resources (see Amoako, 2002). However, Zambia lacks the institutional capacity to enhance accountability; for example, Mohiddin (2008) points out the lack of basic facilities and infrastructure for legislative organs in Zambia. Acemoglu (2008) argues that in the context of development, governance should be viewed in the context of broad institutional arrangements at the economic, political, and legal levels. For Acemoglu, these institutions underpin a country's economic performance; in assessing Zambia's governance status, in this regard, the World Bank (2004b) noted that:

> "One of the most important issues facing Zambia is the inconsistency between the legal framework for public finance and the actual structures and incentives in place to ensure accountability" (p. 28).

The concerns raised by the World Bank are consistent with the issues that have been raised consistently throughout this thesis postulating that perhaps the starting point to begin considering corporate governance in developing countries should be institutional reform. Here, Nestor (2001) maintains that a lack of proper accountability leads to undermined rule of law, increased corruption and bribery and mismanagement in the public sector.

5.5.2 Accountability - Implications for Corporate Governance and Development

For a long time, the use of the word *accountability* has been the semantic preserve of those who are engaged in researching financial accounting and related corporate topics (Mulgan, 2003; Bovens, 2005; Brennan and Solomon, 2008). However, the extant literature now reflects accountability's transformation from a perceived financial and corporate sector function to an interdisciplinary concept (Bovev, 2005; Watkins, 2007). This shift has witnessed accountability emerging as a topical issue in governance literature with debates often encompassing political and economic perspectives. In politics, the persuading view is that citizens should hold politicians accountable (Mainwaring, 2003) while in the corporate community the managers of corporations should be held accountable for their decisions (Keasey and Wright, 1993; McIntosh, 2002). Gallhofer and Haslam (1993) argue that accountability gives rise to good governance at all levels: individual (personal accountability), corporation (principal-agent theory) and state (political and social accountability) as the actors will always strive to embrace good moral and economic criteria. Corporate governance research has traditionally focused on accountability in terms of the principal-agent relationship, but this thesis focuses on broader aspects of company performance and economic performance, consequently driving the debate beyond the corporate sector to responsibility and accountability to broader stakeholder constituents.

5.6 Stakeholder Accountability

In an organisation, the term *"stakeholder"* is often used to indicate those who have a '*stake'* or a legitimate concern in an enterprise (Merrifield, 1998). Stakeholder is another controversial word which can mean different things to different people (Donaldson, 1995; Phillips et al., 2003). However, from the governance perspective one of the challenges of improving corporate governance revolves around the concept of accountability. The usage of stakeholder theory in this study is intended as a means of improving corporate governance through the discharge of accountability to a variety of stakeholder groups[133]. Sternberg (1997) contends that the more inclusive stakeholder approach appears to have gathered a lot of support based on its promise to allow organisations to take on board the concerns of all their stakeholders. Recent scholarly literature appears to focus more on broadening the corporate governance and accountability base beyond the traditional

[133]The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially-sound enterprises (OECD, 2004 p. 46).

shareholder-centric approach which does not represent the interests of non-investing parties and is considered too narrow a view for an economic interpretation of corporate governance (Tirole, 2001; Dunne, 2003; Pesqueux and Damak-Ayadi, 2005; Brennan and Solomon, 2008). Restricting accountability to the traditional principal-agent relationships has the tendency to limit the dynamics of the concept because it excludes other legitimate relationships. Here, Steinberg (2010) states that: "Unfortunately, accountability to one class of stakeholders can impair accountability to other classes" (p. 116). Dunne (2003) argues that the principal concern amongst stakeholder theorists is the dominant narrow conception which does not take on board other constituents that, along with shareholders, require an account from firms. Similarly, Wieland (2005) points out that the stakeholder model is based on the premise that a corporation is a 'social entity' that is responsible and accountable to a broader set of actors than just the suppliers of finance.

However, the trend in recent corporate governance research is for a shift towards a more stakeholder-oriented perspective that takes on board non-shareholding stakeholders (OECD, 2004b; Brennan and Solomon, 2008). The shift has exerted pressure on traditional ways of discharging accountability, with scholars beginning to redefine the concept in line with the current trend that rejects 'traditional' corporate governance's universalistic context-free propositions (see Solomon, 2010's definition in Chapter Three). Solomon (2010)'s definition incorporates the discharge of accountability to all stakeholders and also touches on corporate social responsibility by pointing out that companies should act in a socially responsible way. Similarly, the Institute of Directors in South Africa (2002) argue that:

> "In adopting a participative corporate governance system…The King Committee successfully formalized (sic.) the need for companies to recognize (sic.) that they no longer act independently from the societies and the environment in which they operate (p. 7).

Tirole (2001) points out that in countries that are traditionally more sympathetic to the stakeholder model (such as Germany, France and Japan) the focus of most corporations is on growth and longevity, while profitability is postulated more as an instrument of achieving growth rather than as the ultimate goal of the firm. For Tirole, this is manifested in the composition of the boards in public corporations, particularly in Germany, to include stakeholders such as banks, customers, suppliers and workers. In this context, the principal-agent relationship in the firm which is characterised by myriad relationships with many groups and individuals should be treated as just one relationship in the accountability process. As a means of broadening and enhancing accountability beyond non-shareholding stakeholders (Gray et al., 1987, Gray, 1992 and Gray et al. 1996) advocate social, environmental and sustainability accounting, reporting and disclosure as essential to the development of accountability.

Although there are various definitions of stakeholders, Freeman (1984) describes them as “any group or individual who can affect or is affected by the achievement of the organisation’s objectives of the company” (p. 5). Similarly, Gray et al. (1996) define stakeholders as: “…any human agency that can be influenced by, or can itself influence, the activities of the organisation in question” (p. 45). Cole et al. (2011) argue that while different stakeholder groups may monitor and influence the decisions of those charged with the responsibility of managing the organisation, different stakeholder groups have different levels of interest in the organisation, depending on their incentives and aims. Accordingly, from an accountability perspective it can be argued that different stakeholder groups may have different preferences based on varying incentives and interests. Some of these incentives may be economic in nature.

Proponents of the shareholder model will, however, always question, in ‘whose interest is the corporation run’? The following quote demonstrates a shareholder-centric view of the relationship between management and the company owners:

> "There should be no confusion . . . [A] business corporation is organized (sic) and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of the directors is to be exercised in the choice of means to attain that end, and does not extend to . . . other purposes" (Stout, 2008 p. 165).

Oman (2001) argues that the rationale for the shareholder model is that corporate governance mechanisms are meant to protect the owners of capital because non-investing stakeholders are adequately taken care of through their contractual relations with the firm. Other arguments in favour of the shareholder model are that in the event of liquidation, shareholders bear the heaviest risk (Easterbrook and Fischel, 1991; Turnbull, 1997). For example, Berle and Means (1932) document that between 1900 and 1915 in the US, shareholders suffered the heaviest losses due to corporate governance failures in railroads (receiverships). In contrast however, the CACG (1999b) argues that the losses through company failures are spread across a broad range of stakeholder groups with employees losing their jobs, their families losing their livelihood, consumers losing choice of products, suppliers losing customers, and the whole economy of a country affected. Nonetheless, the debates in favour of and against the shareholder model appear to be very far from conclusive with the pendulum of scholarly literature slowly turning against a conception of corporate governance that deals solely with safeguarding the interests of shareholders.

5.6.1 Assumptions under a Stakeholder Model

There is an assumption that as firms increasingly become recognised as wealth and economic drivers in 'strong' nations, on which citizens depend for their psychological and physiological needs, the less likely firms' traditionally-designed parameters are to be feasible (Trinkaus and Giacalone, 2005); this argument is expressed in the following quote therefrom:

> "Now included are all those having a traditional legal and financial claim on the firm, through those having an explicit social relationship with the firm, to those having a simple implicit interest in the firm - an evolution from an economic to a stakeholder view" (p. 237).

While theory postulates that directors have a fiduciary duty to conduct business in the best interest of the corporation's current and future shareholders today, however, things are markedly different and Bhuiyan and Biswas (2007) maintain that good corporate governance systems ensure that directors and their companies are not only accountable to shareholders, but also to other stakeholders such as employees, creditors, major suppliers and customers. Similarly, the OECD (2004b) is of the view that all stakeholder groups that participate in the creation of wealth should be appreciated as the success of corporations depends on them as a team. For Bhuiyan and Biswas, the implication for accountability is that its scope and parameters have also been extended to take in those who may not have a legal or direct stake in the corporation. The extension of the accountability net beyond the liberal emphasis on the owners is as much a moral obligation as anything else. In this context, accountability is also extended to matters other than financial and economic events. While acknowledging the deficiencies of Anglo shareholder-centric accountability, Gray et al. (1996) argue that accountability for different purposes, for everything and to everyone is impracticable. Similarly, Messner (2009) contends that 'counting on the accountable' to satisfy multiple and conflicting accountabilities is problematic, ethically questionable and perhaps unrealistic; he states that:

> "The vulnerability of the accountable self implies that there are limits to accountability as an ethical practice - in the sense that too much accountability can become an ethically problematic burden for the accountable self" (p. 919).

However, as shown in Chapters Three and Four of this thesis the extant literature on corporate governance and accountability on Africa, appears to support the notion of a stakeholder approach anchored on discharging accountability with a view to conciliating diversified stakeholder needs regardless of whether these are legal or moral contracts. This standpoint is consistent with Gray et al. (1987) who argued that casting companies' accountability net wider is postulated on the notion that responsibilities should not be restricted to creating wealth for the owners, but to a wider constituent of stakeholders who affect and are affected by companies' activities. Focussing on the African context, there is a general view that transplanting institutional arrangements and corporate governance and accountability mechanisms that have worked elsewhere may not fit with the continent's cultural values and will therefore continue to be problematic (Arun and Turner, 2009; Wanyama et al., 2009). Similarly, Chapter Four here illustrated that corporations, as members of the societies in which they operate, are expected to be accountable to other members of the community by aligning their interests with community values (Munro, 1996). Stakeholder theory fits in squarely with the African communitarian way of living and doing business and this issue is now explored in detail.

5.7 Stakeholder Accountability - The African Context

Africa's cultural and historic complexities put the continent at variance with the Anglo-American governance and accountability templates augmented on Western cultural norms (Jackson, 2004). For Africa, embracing corporate governance is more of a development-driven agenda than a dichotomous principal-agent problem; and a developed world paradigm may be inappropriate as it is not underpinned by an appreciation of the continent's cultural context (Jackson, 2004). Africa is characterised by manifold ethnic and language groupings and Jackson argues that accountability in this context, though complex, should be viewed from the perceptions of different stakeholder communities and their influence on corporate governance practices rather than being based on the principal-agent approach. Ethnicity and diversity in cross-cultural dynamics affect people's daily lives in Africa, which in turn affects the way companies are directed and controlled. Any accountability process designed and destined for Africa should consequently be broadened to embrace cross-cultural dynamics (Jackson, 2004).

Jackson (2004) further argues that Africa's pre-colonialisation cross-cultural interactions are still prevalent in the modern governance arrangements of organisations on the continent. Therefore, understanding them and their impact on corporate governance and accountability in Africa is essential. Jackson acknowledges that good governance in Africa is a de facto legacy of the cultural and socio-economic attitudes of the different stakeholder communities and how their relationships are influenced. However, the growing body of literature seems to have paid little attention to the African 'ubuntu' (communitarian)[134] philosophy model (Mbiti, 1989). Gstraunthaler (2010) affirms that the 'ubuntu' concept underlies Africa's style of living and doing business, where all people are postulated to have a responsibility to each other. Karsten and Illa (2005) describe 'ubuntu' as:

> "…a pervasive spirit of caring and community, harmony and hospitality, respect and responsiveness, that individuals and groups display for one another" (p. 607).

Any accountability model for Africa should therefore embrace this collective responsibility amongst stakeholders if it is to have relevance in an African context and incorporate African values (Jackson, 2004).

5.7.1 A Hybrid Model

West (2006) maintains that the pressure created by the Anglo-American model of corporate governance alongside the social pressures created by the 'ubuntu' concept means that hybridisation of corporate governance in Africa is both important and within reach. Adreasson (2006) points to South Africa as a good test for hybridisation, but Jackson (2004) questions how principles of governance developed based on Western cultural frames of reference can successfully address Africa's cross-cultural governance issues more generally.

[134]Ubuntu ('African values') symbolises an African humanism emphasising empathy, understanding, reciprocity, harmony and cooperation. It constitutes a potential guiding principle in African management and business practices (Karsten and Illa, 2005).

Although La Porta et al. (2000)[135] prefer to distinguish different corporate governance models on the basis of investors' legal protection, Hall and Soskice (2001) argue that the most commonly-debated corporate governance and accountability issues focus on distinguishing the concept as reflecting either shareholder or stakeholder models. However, acknowledging the limitations of the (biased) shareholder-centric approach, and also the difficulties and paradoxical complexities in conceptualising the extreme inclusivity stakeholder approach in the African context, some scholars propose an "African model" of corporate governance that strikes a balance between them (Adreasson, 2006). For Adreasson, a corporate governance model that balances shareholder and stakeholder interests and embraces the African values passes the fitness test for the continent and addresses the need for hybridisation noted above.

5.8 Limitations of Accountability

The increased number of recognised stakeholder groups, with varying strengths and needs, have resulted in accountability debates shifting and developing (Tinker et al., 1991) in order to address the diverse interests of (e.g.) shareholders, employees, communities, society, the state, the environments, customers, suppliers, competitors, local government, stock markets, industry bodies, foreign governments, future generations, non-human life (see Gray et al., 1996 p. 45). Accountability relationships have also become more complex; for example, Gray et al. (1996) point out the difficulty in identifying the accountor and the accountee in the accountability process as they may be simultaneously involved in several relationships and can change and swap positions; in one relationship the actor is the accountor while in another situation the same actor is the accountee thus complicating the interactions. In this

[135]La Porta et al., (1998; 1999; 2000) conclude that ownership dispersion is prevalent in common-law countries where investors enjoy better legal protection. They further argue that countries range in strength of protection from the stronger common-law system to the weaker French-civil-law countries, with German and Scandinavian-civil-law board systems in the middle. The authors suggest that corporate governance models can be distinguished on this basis.

context, each actor can be both accountor and accountee to each other making it difficult to pin point who is accountable to whom and for what.

5.8.1 Accountability - A Function of Financial Accounting

Accountability has traditionally been viewed as a function of financial accounting, with a history of contrived silence in other disciplines (Hopwood, 1990; Bovev, 2005). In this context, scholars argue that annual financial reports are fundamental in providing an account to various stakeholder groups as well as representing a way of discharging accountability by directors (Connolly and Hyndman, 2004; Kilcullen et al., 2007; Mack and Ryan, 2007). Although accountability now spans almost every area of social science (Mulgan 2000), it has always been an aspect of accounting, especially book-keeping (Bovens 2005). The recent past has seen accountability slowly moving beyond this tradition (Bovev, 2005; Watkins, 2007), i.e. a view that restricts accountability to the stewardship function of management with large tracts of business activity remaining skewed towards discharging accountability to (powerful) owners of capital and other finance providers. The traditional approach confines accountability to accounting figures ignoring other core issues; this Gray et al. (1987) therefore propose a broadened accountability framework that takes on board varying degrees of non-financial social elements. However, Puxty (1986) argues that financial reporting in itself is not adequate to effectuate in this context. Similarly, Messner (2009) argues that different stakeholders demand different information, requiring the actor to "speak in several languages at the same time" (p. 919), rather than concentrate on discharging accountability through traditional financial reporting models as opposed to other forms of accountability and accountability channels that go beyond economic decision-making to shareholders. This suggestion is consistent with the literature on Africa which points to an alternative (broad) view of accountability, as noted earlier.

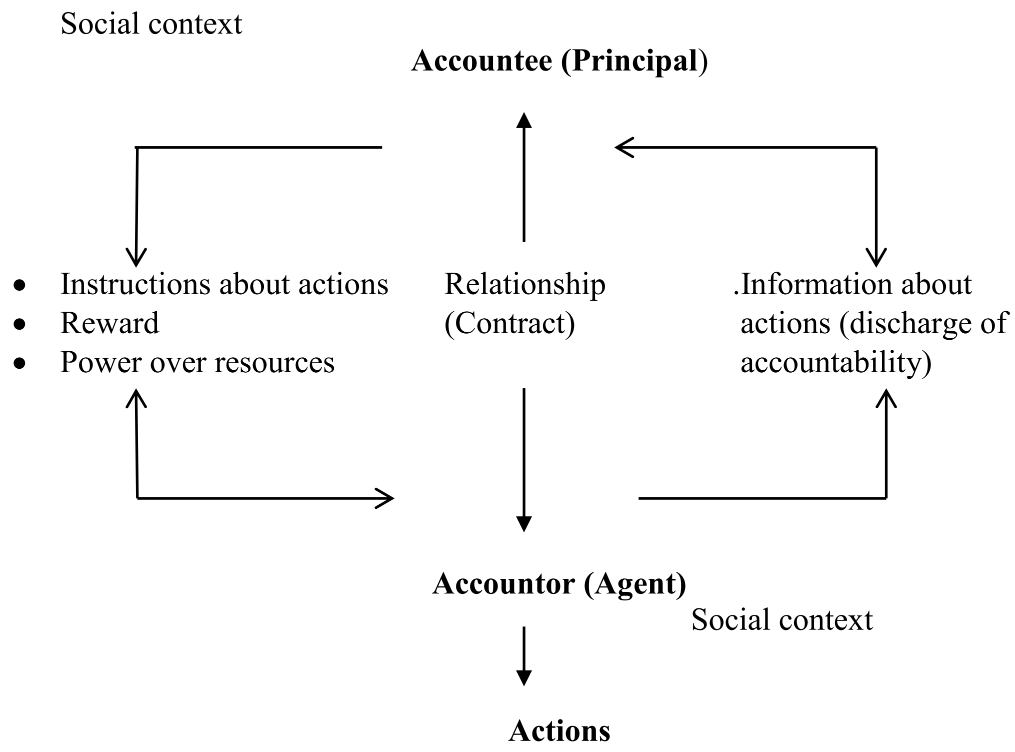
5.8.2 Inherent Limitations

It is often assumed that there has to be a recognised contractual relationship between the accountor and the accountee in the accountability process (Gray et al., 1996). According to Behn (2001), the accountability relationship exists between two parties, groups of people, individuals or organisations. Specific relationships determine the types of accountability that can be discharged (Bovens 2005), as different relationships demand different types of accountor and accountee and, consequently, form of accountability. The main implication is that any discharge of accountability outside the contract is purely moral, or based on ethical practice (personal accountability). But, Likierman (1986) argues, while responsibilities can be distinguished into legal, non-legal, moral and natural varieties, the moral and natural variants are difficult to achieve in practice because discharging accountability in this form is *ex gratia* (given as a favour), voluntary (Gray et al., 1996) or reputational (OECD, 2004b) making it unlikely to be purposeful without mandatory effect. While accountability can be based on legal or moral frames, this basic conception is usually interpreted as implying that the justification for accountability exists purely because of mandatory obligation or *intra legem* (within the law). In the absence of a legal relationship, accountability to non-contractual stakeholders is limited to moral and natural obligations (Tinker et al., 1991), or *ex aequo et bono (*not on considerations of existing law). Similarly, Tricker (1983) posits that accountability cannot be expected to occur without the accountor being called to account and the contract enforced. However, Fox (2010) points to the challenges posed by discharging accountability to non-contractual stakeholders. Correspondingly, Berle and Means (1932) maintain that shareholders have special mechanisms of control and governance to protect their interests, while other stakeholders (such as employees, lenders, suppliers and customers) with contractual arrangements are able to defend themselves appropriately through contracts and legal institutions. However, this understanding leaves non-contractual stakeholders with limited options, if any, to protect themselves adequately. Under such circumstances, the accountee has formalised power to enforce compliance. While the law[136] stipulates the procedures for stakeholders with a *de jure* relationship to impose sanctions, there are limited mechanisms available for non-contractual stakeholders to impose sanctions against a non-performing accountor. It is clear here that from a legal perspective, it is essential that a *de jure* accountee (*lex lata*) has adequate sanctioning powers to hold the accountor to account. Although Gray et al. (1996) go on to argue that *de jure* or *ex gratia* accountability can still be enforced, there is an acknowledgement of the fact that the accountability process in its current form lacks institutional capacity, primarily in the broadened aspect. Many other scholars argue that an accountability process without the right for the accountor to impose sanctions is incomplete (Burritt and Welch, 1997; Schedler, 1999; Mulgan, 2000; Boven, 2005; 2006).

In Figure 5.3 below, Gray et al.'s (1996**)** model is shown to presuppose accountability limiting a relationship between two actors, those with the right to hold others to account and those that are accountable. According to Gray et al. (1996**)** the relationship between the accountee and the accountor has to be contractual (those in control and those with contracts). Gray et al. (1996) concede that conventional accountability has a tendency to limit itself to a restricted set of stakeholders, excluding the state, society, ethics, culture and the environment who influence the company's activities but are non-contractual.

[136]Gray et al. (1996) affirms that in conventional financial accounting the contract between the accountor and accountee is governed by the Companies Acts.

Figure 5.3 A Generalised Accountability Model



Source: Gray et al., 1996 p. 39

Gray et al. (1996) argue further that, *ex gratia,* there may be a tendency for organisations to extend accountability only to those stakeholder groups that have a direct concern in furthering the interests of the organisation, neutralising the effectiveness of accountability where the accountee is able to choose who to account to. For example, Altman (2000) contends that defining the community in its stakeholder form (as a stakeholder) and later on discharging accountability to this same community on an *ex gratia* basis may not be practicable.

5.8.3 Accountability Expectations Gap

An expectation gap appears to exist within the accountability process between accountors and accountees in relation to various issues associated with the provision of information. Cooper and Owen (2007) argue that suggesting that someone is accountable for their actions is to hold certain expectations about the actor's responsibility. The accountor's failure to provide information to satisfy the expectations of all the stakeholder groups creates an expectations gap between the accountor and the accountee. For example, a company's failure to provide information about transactions that implicate it in anti-social practices, such as money laundering, tax evasion, bribery and corruption, or other social consequences (Mitchell et al. 2002) or environmental information (Tilt, 1994; Deegan and Rankin, 1997) creates an accountability expectations gap.

The expectations gap may reflect a number of reasons: (i) there may be no contractual obligation (Gray et al. (1996); (ii) the accountor may be unaware of the demand for such information, or their own individual roles (Gray et al., 1996; Suwanraks, 1999); (iii) cost implications in the provision of such information (Bovens et al., 2008); or (iv) simply a strong desire to avoid sanctions. Irrespective of the cause, the expectations gap calls for accountability mechanisms to bridge the gap between actions and expectations (Scott and Lyman, 1968). In this context, Steinberg (2010) questions whether: "[T]he organisation (should) be accountable to all its legitimate stakeholders, or should accountability take different forms for different classes of stakeholders?" (p. 116). Similarly, Mulgan (2000) maintains that unless different channels of accountability are designed for different stakeholders, discharging accountability to multiple stakeholders through the same conduit is impractical. Patton (1992) contends that the relationship between the accountor and accountee has the propensity to influence the information demanded, leading to preferences for different types of information, while Bovens (2005) maintains that different accountees may have different expectations, based on different relationships. In this context, failure or success of accountability can be viewed as a question of expectations.

5.9 Conclusion

Accountability may be held as the trademark of corporate governance, similarly corporate governance is viewed as a crucial element of the broader governance notion. In this regard, the present study views the problems of governance in Zambia in terms of accountability. Although different definitions of accountability exist, what remains undisputed is the state of being accountable (in terms of the duty to provide an account), liability to be called on to render an account and the obligation to bear the consequences for failure to perform as expected. Accountability guarantees that actions, transparency, disclosure and decisions taken by those entrusted with responsibility are overseen in order to ensure objectivity and quick responses to the needs of stakeholders, contributing in turn to better governance.

Accountability is viewed as a critical element of sound governance practices in both the public and private sectors. In fact, one of the major challenges to efforts to improve corporate governance revolves around the concept of accountability. Focusing on the notion that corporations are wealth generators for sound economies, accountability and sound corporate governance practices underpin economic development. However, Africa's ethnicity and cross-cultural diversity appears to side-line the dominant principal-agent accountability. It has been argued in this chapter that for Africa, accountability should be viewed from the perspectives of different stakeholder communities (and their influence on corporate governance practices) rather than the principal-agent approach. This broad context affects African daily lives, as well as the management style and business practices extant on the continent, and therefore influences the accountability model.

Stewart's Ladder of Accountability is of particular relevance to a study such as this which attempts to push the boundaries of corporate governance beyond agency theory and firm performance to broadened accountability and economic outcomes. In this context, accountability in Zambia can be seen in terms of: (i) probity and legality; (ii) process; (iii) performance; (iv) programme; and (v) policy. These types of accountability have been shown to have a universal application in different sectors of economic activity - private, public and government, and to have direct relevance to the present study. Having explored the theoretical underpinning of the thesis the next chapter outlines and discusses the methodological and method-related issues that flow from this.

CHAPTER SIX

METHODOLOGY AND METHODS

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6.1 Introduction

This chapter introduces and describes the methodology and methods used in this study. After a long search process the New Partnership for Africa's Development (NEPAD) - Africa's development framework - has finally acknowledged corporate governance as one of the conditions for development both for the continent collectively and for individual countries. The concept of corporate governance was introduced in the first chapter of this thesis. As noted therein, while extensive research has been undertaken on corporate governance, very little has been carried out with reference to its interplay with development, particularly in Africa. This context strongly influences the methodological underpinnings of this research as set out in this chapter: The chapter explores the study's various philosophical assumptions and the rationale for the methods employed in the collection and analysis of empirical data. The discussion is intended to explain the choices made in these regards, choices influenced by the desire to contribute meaningfully to knowledge of the relationship between corporate governance and development in an emerging country such as Zambia.

6.2 Methodological Assumptions

Methodological assumptions differ from problem to problem with variants reflecting researchers' views about the nature of both social science and society; consequently they greatly influence human reasoning in the process of gathering and communicating knowledge (Hatch and Cunliffe, 2006). Here, Chua (1986) argues that: "Methodological assumptions indicate the research methods deemed appropriate for the gathering of valid evidence" (p. 604), although Tsukamoto (2003) suggests that explicating methodological assumptions constitutes a huge challenge for researchers in terms of the philosophy of social science research. Although there are no established rules guiding one's methodological assumptions, Morgan and Smircich (1980) contend that research is guided by the assumptions that researchers make in terms of the nature of knowledge (and how that knowledge can be obtained) and the phenomena to be investigated. These, for Morgan and Smircich (1980), form the basis of any research endeavour, regardless of whether it takes a qualitative or quantitative form. Similarly, Burrell and Morgan (1979) argue that researchers always take a position on philosophical underpinnings about the nature of the social world and how it should be investigated; for these authors, ontology, epistemology, human nature and methodology are some of the basic philosophical assumptions that inform approaches to social science research. Correspondingly, Ryan et al. (2002) believe that:

> "…the selection of an appropriate research methodology cannot be done in isolation of the consideration of the ontological and epistemological assumptions which underpin the research in question. Also, it is relevant to note that methodology is concerned with the process of doing research, and as such it has both ontological and epistemological dimensions" (p. 54).

Ryan et al.'s view is that an alignment of the three sets of assumptions - ontology, epistemology and methodology - is what constitutes the researcher's philosophical positioning. It should be noted however that different methodological perspectives can result in different conclusions being reached from the study of identical phenomena (Deetz, 1996; Hatch and Cunliffe, 2006).

6.2.1 Nature of Social Science Research

It is commonly argued that research is a process of providing answers to complex situations in order to promote better understanding, guide social planning and improve societal living standards (Kumar, 2011). In this context, the proper fusion of ontology, epistemology and human nature underpin social science research (Morgan and Smircich, 1980). In the same vein, Burrell and Morgan (1979) posit that the ontological and epistemological positions taken, coupled with assumptions made about human nature, have a direct influence on methodological disposition and, more broadly, underpin social science research. Although Burrell and Morgan have tried to simplify the four underpinning assumptions, Landman (2003) describes the distinction between ontology, epistemology and methodology as not straightforwardly conceptualised.

6.2.2 Ontological Assumptions

Bryman (2001) argues that ontological assumptions are primarily concerned with the nature of the world and human beings in a social context. More specifically, ontology relates to the study of being or reality, whether reality is viewed as objective and external to human beings or is instead created by one's own consciousness (Mouton and Marais, 1988; Blaikie, 1993; Wand and Weber, 1993). Likewise, Burrell and Morgan (1979) refer to assumptions regarding the nature of the phenomena to be investigated as being of an ontological nature. The authors point out that the basic ontological question is:

> "whether the 'reality' to be investigated is external to the individual – imposing itself on individual consciousness from without – or the product of the individual consciousness; whether 'reality' is of an 'objective' nature, or the product of individual cognition; whether 'reality' is a given 'out there' in the world, or the product of one's mind" (p. 1).

It can be interpreted from the above reasoning that, depending on ontological positioning, different researchers might reach different conclusions from the same observations. Consistent with Burrell and Morgan (1979), Morgan and Smircich (1980) argue that the researcher's ontological position provides a frame for incorporating the assumptions that are inherent to humankind's view of the world, i.e. whether the world is external to individuals (positivism) or, instead, individuals control the environment (anti-positivism). The contextual application of ontological assumptions to the present study is that the assumptions guide the researcher as to the kind of knowledge that needs to be gathered in the area of corporate governance and the consequential ramifications for the country's development. The fact that different assumptions regarding reality do exist (Guba and Lincoln, 1994), leads this discussion onto assumptions about how knowledge regarding the nature of the world is gathered (epistemology).

6.2.3 Epistemological Assumptions

Epistemology[137] refers to how knowledge is created (Bryman, 2001; Krauss, 2005). According to Burrell and Morgan (1979), epistemological assumptions are concerned with how the researcher understands and gather knowledge, as well as the manner in which it is communicated. The authors refer to epistemology as:

> "…assumptions about the grounds of knowledge – about how one might begin to understand the world and communicate this as knowledge to fellow human beings" (p. 1).

Burrell and Morgan (1979) further argue that there are two dimensions to how knowledge can be created, i.e. "…whether knowledge is something which can be acquired on the one hand, or is something which has to be personally experienced on the other" (p.2). There is a strong association between ontology and epistemology as the former focuses on what exists, the nature of the world and reality, while the latter concentrates on how what exists may be known (Hall, 1990; Usher, 1996). This link implies that epistemological assumptions are subdued by those relating to ontology (Guba and Lincoln, 1994)[138]. In this context, epistemological assumptions focus on justifying how any claims to know are "knowable" (Usher, 1996). Krauss (2005) describes the link as follows: "Ontology is the philosophy of reality; epistemology addresses how we come to know that reality while methodology identifies the particular practices used to attain knowledge" (p. 759). Murray and Lawrence (2000) extend this association to data collection techniques by stating that: "Ontological assumptions will give rise to epistemological assumptions which will have methodological implications for the choice of particular techniques of data collection" (p. 124).

[137]Epistemology is from the Greek word 'episteme' which means knowledge (Mouton and Marais, 1988; Krauss, 2005).

[138]In other words, the epistemological question is constrained by the ontological question.

6.2.4 Human Nature

According to Burrell and Morgan (1979), human nature refers to “the relationship between human beings and their environment” (p. 2). For Burrell and Morgan, this idea is framed on the notion that the subject and object of investigation centres on human life and how humans respond to the external world (whether mechanistic or deterministic). Burrell and Morgan identify two underlying assumptions that can be made about human nature; either the human being is controlled by the environment or the human being, as the creator of the environment, controls the environment. The two contrasting philosophical perspectives (together with ontological and epistemological positioning) guide the methodological aspects of research.

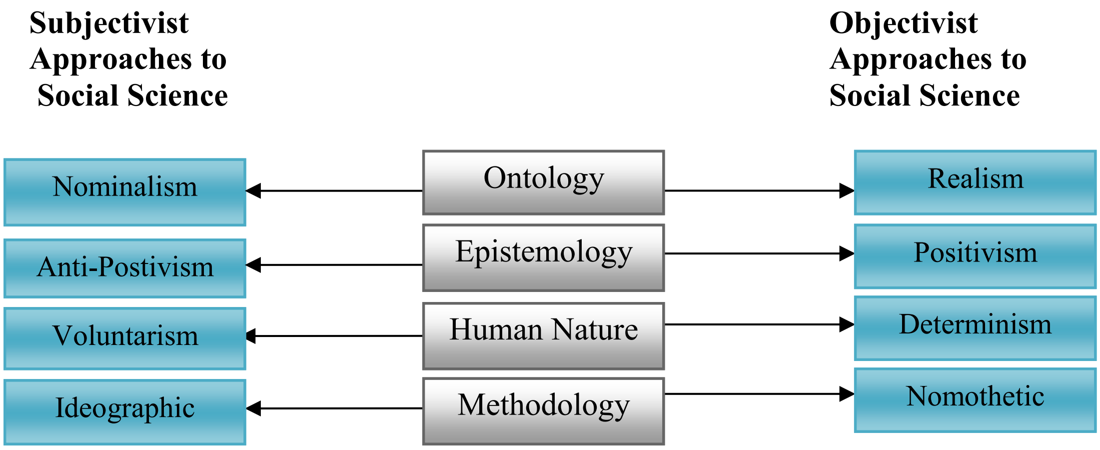
6.2.5 Methodology

There is a common view that ontology, epistemology and methodology are intimately related (Guba and Lincoln, 1994; Ryan et al., 2002; Krauss, 2005). However, the issue of methodology focuses on the particular practices that are used to gather knowledge (Krauss, 2005). Guba and Lincoln (1994) refer to methodology as the way the inquirer goes about finding out what can be known. The two authors further argue that not all methodologies are appropriate to all research activity, but rather the methodology depends on the researcher’s beliefs about ontology and epistemology. Morgan and Smircich (1980) argue that in social science research most qualitative research is underpinned by subjectivist judgements made by the researcher rather than, necessarily, the appropriateness of research techniques.

6.3 Burrell and Morgan’s Subjective: Objective Dimension

Burrell and Morgan (1979) characterise social science as having two opposing dimensions - subjective and objective - with each influencing positions on ontology, epistemology, human nature and methodology. Figure 6.1 below illustrates this framework.

Figure 6.1 Burrell and Morgan's Subjective – Objective Dimension



Source: Burrell and Morgan (1979)

Depending on the nature of the research and the position taken on the subjective-objective continuum, Burrell and Morgan (1979) identify two basic ontological positions: *nominalism,* which is more subjectively inclined, and *realism* which is aligned to objectivism. The authors argue that:

> "The nominalist position revolves around the assumption that the social world external to individual cognition is made up of nothing more than names, concepts and labels which are used to structure reality" (p. 4).

Consistent with Burrell and Morgan's view, Niiniluoto (1999) portrays the nominalists' view as involving: "linguistic vehicles for classifying individuals" (p. 29). Nominalism incorporates the view that reality is a subjective construction of one's mind, thereby denying the notion of there being a real structure to the world (Husserl, 1970; Burrell and Morgan, 1979; Siau and Rossi, 2011). In direct contrast realism, a more objectivism-aligned way of thinking, holds that reality comprises objectively given immutable objects and structures with researchers standing as neutral observers. This view follows from assuming real world structural characteristics of hardness and intangibility that exist regardless of individual perceptions[139].

[139]In this context, Burrell and Morgan, (1979) note: "Whether or not we label and perceive these structures, the realists maintain, they still exist as empirical entities. We may not even be aware of the existence of certain

In terms of epistemology, Burrell and Morgan (1979) propose two principal positions, namely positivism and anti-positivism. Gale (1979) asserts that positivism - which many scholars refer to as the 'traditional' research approach - dominates modern scientific inquiry[140] is based on forecasting and elucidating causal relationships among key variables. The positivist approach to exploring social reality is based on the philosophical assumption that knowledge is best obtained through observations and experiments (Burrell and Morgan, 1979; Hall, 1990; Wicks and Freeman, 1998; Krauss, 2005). In this context, Krauss (2005) argues that positivists tend to disconnect themselves from the world they study. In contrast, anti-positivists challenge the properness of causal relationships for the understanding of phenomena, instead embracing the assumption that social reality is viewed and interpreted by the individual and, in this context, knowledge is acquired through personal experience and not superimposed from outside **(**Burrell and Morgan, 1979; Guba and Lincoln, 1994). Quite clearly, the epistemology of anti-positivism rejects the practicality and usefulness of probing the laws and regularities in the world of social affairs in favour of the alternative view that the social world can be better understood through involvement in the study (Burrell and Morgan, 1979).

As regards assumptions about human nature, Burrell and Morgan (1979) identify two opposing views: the objectivist extreme is determinism which postulates a human being and his/her activities as being controlled by the environment. In contrast, at the subjectivist extreme voluntarism assumes that a human being is completely autonomous. However, Burrell and Morgan posit that assumptions about human nature do not necessarily need to be located in any of the two extremes with an intermediate position involving a hybridisation of

crucial structures and therefore have no 'names' or concepts to articulate them. For the realists, the social world exists independently of an individual's appreciation of it "(p. 4).

[140]But dates back to the sixteenth century

both situational and voluntary assumptions about the activities of human beings being favoured.

In the context of methodology, ideographic and nomothetic are the two competing classes of assumptions. According to Burrell and Morgan (1979):

> "The ideographic approach to social science is based on the view that one can only understand the social world by obtaining first-hand knowledge of the subject under investigation" (p. 6).

The authors emphasise the ideographic notion as being based on a subjective description of the researcher's experience of getting 'inside' situations and getting involved in everyday flow of life, i.e. "… letting one's subject unfold its nature and characteristics during the process of investigation" (p. 6). In contrast, the nomothetic approach emphasises conventional research, research which focuses on natural science techniques as the manner of gathering knowledge (Burrell and Morgan, 1979).

Burrell and Morgan (1979) recognise the influence that the apparent dichotomous nature of the subjective-objective dimension can have on the researcher; for example, a subjective approach to social science may be characterised by assumptions that are nominalistic, anti-positivist, voluntaristic and ideographic. Similarly, the objective approach to social science may reflect an approach that is realistic, positivistic, deterministic and nomothetic. However, Burrell and Morgan (1979) argue that the interaction between the two opposing approaches have resulted in the emergence of intermediate positions. The subjective-objective conception framework originally meant to clarify methodological assumptions has, unwittingly, posed more controversy and represents the most problematic legacy of Burrell and Morgan's work (Deetz, 1996).

6.3.1 Ontology, Epistemology, Human Nature and Methodology - Network

The four sets of assumptions outlined above are interlinked in the sense that ontological assumptions are concerned with what is knowable, epistemological assumptions are concerned with how knowledge is knowable, human nature is concerned with human beings and their view of the world, while methodology relates to how knowledge is acquired (Hall, 1990; Guba and Lincoln, 1994; Usher, 1996; Murray and Lawrence, 2000; Krauss, 2005). Morgan and Smircich (1980) argue that this form of analysis offers some useful insights regarding the implications of locating oneself at a particular point on the subjective-objective continuum. Moving along the continuum, assumptions undergo a form of refinement and the grounds for knowledge at each point differ fundamentally according to the particular views held about social reality (Morgan and Smircich, 1980). Effectively the assumptions about what is knowable, how it is knowable, how the world is viewed and how knowledge is finally acquired are seen as shifting. For Morgan and Smircich, reality is a projection of human imagination[141] (see for example, Laughlin, 1995) because people experience reality in different ways as they interact with each other (i.e. subjectivism) as opposed to the objectivist view of reality as a concrete structure[142].

6.4 'Order' and 'Conflict' Theories of Society

To understand the society under investigation, Burrell and Morgan (1979)[143] propose two assumptions about the nature of society: the 'order' theory and the 'conflict' theory. Similarly, Chua (1986) argues that order and fundamental conflict underpin assumptions about society. The order-conflict assumptions are espoused by two opposing approaches,

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[141]Morgan and Smircich (1980) argue that: "The social world and what passes as 'reality' is a projection of individual consciousness; it is an act of creative imagination and of dubious inter-subjective status. This extreme position, commonly known as solipsism, asserts that there may be nothing outside oneself" (p. 494).

[142]Morgan and Smircich further posit that: "The social world is a hard, concrete, real thing 'out there' which affects everyone in one way or another. It can be thought of as a structure composed of a network of determinate relationships between constituent parts. Reality is to be found in the concrete behaviour and relationships between these parts" (p. 495).

[143]Burrell and Morgan (1979)'s study in the area of order and conflict was greatly influenced by the work of Dahrendorf (1959) which was later criticised by Cohen (1968) for treating order and conflict as separate models. In rejecting this notion, Cohen argued in favour of theories embracing elements of both models because they are not mutually exclusive. Cohen has also been accused of having misinterpreted the distinction between the two theories, thereby losing the radical essence of the conflict perspective (Burrell and Morgan, 1979).

one framed on explicating how and why societies cohere (social order) and those framed on "problems of change, conflict and coercion in social structures" (Chua, 1986 p. 10).

Figure 6.2 Two theories of society: 'order' and 'conflict'

The 'order' or 'integrationist' view of society emphasises	*The 'conflict' or 'coercion' view of society emphasises*
Stability	Change
Integration	Conflict
Functional co-ordination	Disintegration
Consensus	Coercion

Source: Burrell and Morgan, 1979 p. 13.

Although some commentators claim that the order-conflict debate is a significant oversimplification of viewpoints regarding the nature of society, earlier philosophers such as Dahrendorf (1959) argue that it provides insights about how different researchers hold alternative assumptions regarding the nature of society and, ultimately, how they investigate it.

6.4.1 From 'Order' and 'Conflict' to 'Regulation' and 'Radical Change'

The arguably oversimplified 'order' and 'conflict' characteristics of societal theories led to a number of limitations being identified in terms of the assumptions made about the nature of society (Cohen, 1968; Silverman, 1970). Conceding this fact, Burrell and Morgan (1979) contend that: "Many sociologists now regard this debate as dead or as having been a somewhat spurious non-debate in the first place" (p. 10). Similarly, other scholars believe that the distinction between order and conflict is not detailed enough and appears to be oblivious to the notions' fundamental dissimilarities; as such they are open to misinterpretation (Cohen, 1968; Silverman, 1970). While Burrell and Morgan (1979) revisit the order-conflict debate and use it as a platform to analyse assumptions about the nature of society, they acknowledge the fact that such limitations have shifted attention from the order-conflict debate to subjectivists' theorising. In this regard - and in an attempt to approach the debate more straightforwardly - Burrell and Morgan (1979) propose the use of different terminologies in the form of 'regulation' sociology; this is concerned with "the need for regulation in human affairs: … It attempts to explain why society tends to hold together than fall apart" (p. 17) and, in direct contrast, they propose a 'radical change' sociology, one which is concerned with "… man's emancipation from the structures which limit and stunt his potential for development" (p. 17). The proposed terminology changes are aimed at clarity enhancement and reducing the scope for misinterpretations. The characteristics of the proposed changes are illustrated in Figure 6.3 below.

Figure 6.3 The Regulation - Radical Change Dimension

The sociology of REGULATION is concerned with		*The sociology of RADICAL CHANGE is concerned with*	
(a)	The status quo	(a)	Radical change
(b)	Social order	(b)	Structural conflict
(c)	Consensus	(c)	Modes of domination
(d)	Social integration and cohesion	(d)	Contradiction
(e)	Solidarity	(e)	Emancipation
(f)	Need satisfaction	(f)	Deprivation
(g)	Actuality	(g)	Potentiality

Source: Burrell and Morgan (1979 p. 18).

Burrell and Morgan (1979) argue that the two contrasting positions are fundamentally at variance, to the extent that they should not be perceived as a mere novelty on a single theme; they further argue that the two cannot be given the same level of attention simultaneously as "one must always be committed to one side more than another" (p. 19).

6.5 Research Paradigms

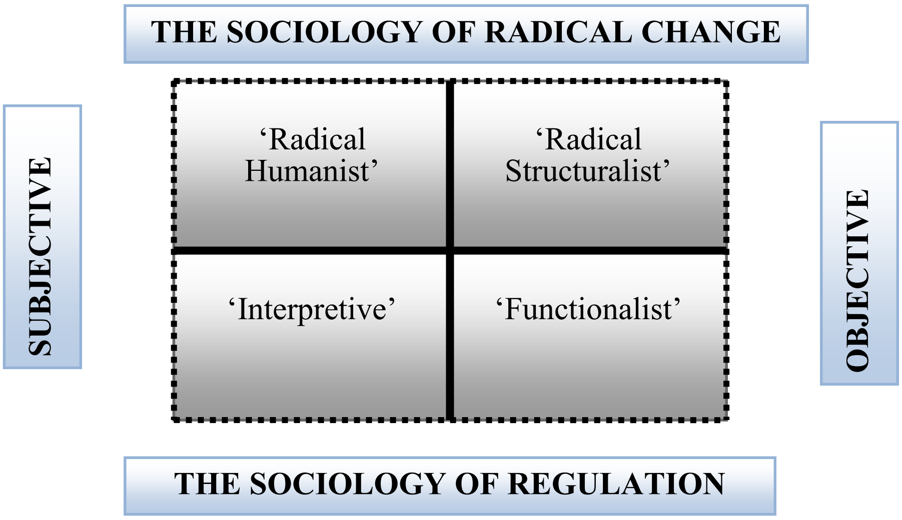
According to Kuhn (1970), a paradigm provides a worldview, or framework, for understanding the nature of society and investigating the social world (see Ardalan, 2008). Likewise, Morgan (1983) argues that research paradigms not only provide philosophical and methodological underpinnings for conducting research but also act as a podium for researchers from which to interpret the social world. Guba and Lincoln (1994) describe a paradigm as:

> "… a set of *basic beliefs* … that deals with ultimates or first principles. It represents a *worldview* that defines, for its holder, the nature of the "world," the individual's place in it, and the range of possible relationships to that world and its parts" (p. 107).

Guba and Lincoln (1994) refer to the ontological, epistemological and methodological assumptions as the beliefs that both define and support a particular research paradigm. In Ardalan (2008)'s view, any research must be underpinned by assumptions that underwrite the researcher's worldview or paradigm; one consequence of this reasoning is that alternative paradigms incite researchers to view phenomena differently (Deetz, 1996; Hatch and Cunliffe, 2006).

Consolidating the opposing sets of assumptions about the nature of social science (i.e. the subjective - objective dimension) and the assumptions about the nature of society (regulation - radical change), Burrell and Morgan (1979) brought into being a two-by-two matrix conceptual framework. The authors propose philosophical assumptions that situate the nature of social science along the subjective-objective continuum and the nature of society along the regulation-radical change continuum. Four mutually exclusive positions are formulated in this conceptual framework, with each defining a range of intellectual territory and alternative views of social reality; these are "radical humanist", "radical structuralist", "interpretive" and "functionalist", as illustrated in Figure 6.4 below.

Figure 6.4 Burrell and Morgan's Four Paradigms



Source: Burrell and Morgan (1979 p. 22)

Burrell and Morgan (1979) observe that the sociological debate in the mid-20th century was more predisposed to defining the subjective – objective dimension than the regulation – radical change issue. However, the emergence of Burrell and Morgan's framework appears not to have calmed the debate in this area, and theorists are instead now characterised as belonging to one of the four more developed units of sociological thought, namely: radical humanists, radical structuralist, functionalists and interpretivists. Within this framework, Burrell and Morgan (1979) propose that: "To be located in a particular paradigm is to view the world in a particular way" (p. 24), and contend that each paradigm has its own (concealed) set of basic assumptions that are fundamentally at odds with the assumptions of other paradigms [144]. However, questions have been raised as to whether it is possible for one to be ring-fenced in a single discrete paradigm without being influenced by other neighbouring paradigms (Alvesson and Willmott, 1996). Notwithstanding this debate,

[144] "They offer different ways of seeing. A synthesis is not possible, since in their pure forms they are contradictory, being based on at least one set of meta-theoretical assumptions. … one cannot operate in more than one paradigm at any given point in time, since in accepting the assumptions of one, we defy the assumptions of all the others" (Burrell and Morgan, 1979 p. 25)

Burrell and Morgan (1979) acknowledge that the researcher does not necessarily need to take an immutable position as there is an allowance for some diversification at the extremes.

From a sociological point of view, the four paradigms are idiosyncratic in nature. The functionalist paradigm is entrenched in the sociology of regulation and an objectivist orientation which embraces realist, positivist, determinist and nomothetic assumptions (Burrell and Morgan, 1979); the authors believe that:

> "The functionalist approach to social science tends to assume that the social world is composed of relatively concrete empirical artefacts and relationships which can be identified, studied and measured through approaches derived from the natural sciences" (p. 26).

Functionalists argue for the furtherance of the state of affairs rather than revolutionary change. This perspective reflects a view that the world is objective, existing independently of actors and, as such, is more concerned with the reasons for particular behaviour and its association with the social world (Burrell and Morgan, 1979). Dunne (2003) notes that the functionalist paradigm received a lot of attention in accounting and finance investigation, particularly towards the end of the 20th century. Consistent with Dunne, Ardalan (2008) asserts that the functionalist paradigm is now very popular in mainstream finance research.

In contrast to the functionalist approach, interpretivism side-lines the objective standpoint in favour of phenomenological assumptions formulated on the importance of understanding society from the point of view of the actors engaged in the performance of social activities (Burrell and Morgan, 1979). Researchers in this paradigm take the role of participants rather than observers (Ardalan, 2008); moreover as *nominalists,* those involved believe that the world is socially constructed and that reality is best understood from the point of view of the individual involved in the activities being investigated (Siau and Rossi, 2011). Thus, proponents of interpretism are *anti-positivists* in that they believe knowledge to be acquired through personal experience and social reality as viewed and interpreted by the individual

(Burrell and Morgan, 1979). In addition, interpretivists are *voluntarists* who believe that people are completely autonomous (Burrell and Morgan, 1979) and favour an *idiographic* approach whereby, in order to understand the social world first-hand, knowledge must be obtained from the subjects being investigated (Dhillon and Backhouse, 2001). In order to acquire knowledge and comprehension of the phenomena being investigated, Burrell and Morgan (1979) thus argue that interpretive researchers must get 'inside' their subjects' lives.

In the left hand corner of the Burrell and Morgan's two-by two matrix lies the radical humanist paradigm, framed on the sociology of radical change and a subjective position. One of the main assumptions underpinning the radical humanist viewpoint is that reality is socially created. However, radical humanism is similar to interpretism in the sense that both paradigms embrace nominalistic, anti-positivistic, voluntaristic and ideographic assumptions about the social world. While interpretivists are concerned with understanding the nature of the everyday world, radical humanists render a critique of the existing state of affairs by prioritising radical change, modes of domination, emancipation, deprivation and potentiality. The radical structuralist paradigm differs from the radical humanist paradigm in that while the former takes a subjective position regarding the sociology of radical change, the latter takes an objective disposition. The paradigm is anchored on four pillars; totality, structure, contradiction and crisis (Ardalan, 2008). For a radical structuralist, relational structuralism in the encased realist social world is the basis of radical critique of society (Burrell and Morgan, 1979).

6.6 Divergence in Paradigms

Morgan (1990) argues that while the diversity in paradigms provides insights into methodological assumptions about the nature of science society, it also provides opportunities and threats. For scientists who embrace the traditional approach to research, Morgan argues that the diversity challenges the legitimacy of what they know and creates many complicated problems in terms of theoretical conceptualisation and research techniques that need to be addressed. On the other hand, diversity provides opportunities for access to new perceptions that may change the way researchers view the nature of science and society by offering new structures of assumptions and new ways of understanding phenomena (Morgan, 1990).

6.6.1 Censure of the Burrell and Morgan Approach

The work of Burrell and Morgan (1979) has inspired a number of researchers in different ways (see Laughlin, 1995). However, as is common in philosophical pursuit, their work has not been immune to censure (Chua, 1986). Such criticisms have sometimes come with explicit alternative viewpoints (Chua, 1986; Laughlin, 1995; Blaikie, 1993). For example, Chua argues that:

> "Each tradition has had its champions, its followers and the critics and there has been the inevitable rise and fall in what has been regarded as fashionable approaches" (p. 1).

The Burrell and Morgan (two-dimensional) classification of social theory is viewed by some scholars as too simplistic (Hopper and Powell, 1985; Chua, 1986; Laughlin, 1995; Dhillon and Backhouse, 2001). For example, there is an argument that a wider range of alternative research perspectives such as post-modernist and feminist assumptions should have been integrated (Chua, 1986; Clair, 1999). Chua (1986) appears to downplay the assumptions made about the emancipation and autonomy of the individuals (Burrell and Morgan, 1979), and doubts the validity of the notion that individuals are influenced by the social environment. Deetz (1996) argues that while the grid makes research approaches more realistic, the magnitude of divergences is potentially confusing and may result in indisposed conflicts and discussions - particularly in current research orientations. Moreover, there are limitations in terms of dimensions of contrast[145]. Dirsmith et al. (1985) explicitly point to problems they experienced in applying the regulation-radical change continuum to their research while Willmott (1993) critises the "sharpness and uncompromising character of the mutual exclusivity thesis" (p. 683). Despite the criticisms, the Burrell and Morgan grid has gained pervasive hegemony in modern discussions regarding the foundations of social science research and is widely used in the literature (Aldrich, 1992; Deetz, 1996; Goldspink, 2000).

6.7 Paradigmatic Location for the Present Study

6.7.1 The Interpretive Paradigm

The discussion in this section outlines the processes and thinking on which choices of paradigms and relationships are founded. According to Morgan (1980), the theoretical assumptions of qualitative research are consonant with the interpretative paradigm's assumption that social reality is created and sustained through the subjective experience of those involved. Taking Burrell and Morgan's proposal that a researcher can only be in one paradigm at a time[146] the paradigm that underpins the present study is interpretive, embracing idealist ontological assumptions, a normative epistemology, voluntaristic human nature beliefs and an ideographic methodology.

6.7.2 The Abstract Connotation - Accountability

The extant literature, particularly in the Western context, assumes that accountability predicates good governance (see Keasey and Wright, 1993; McIntosh, 2002). However, based on the assumption that a world exists in a particular context, accountability defined as 'giving an account and being held to account' (Schafer, 1999 p. 9) appears to exist within a particular context and is subject to different perceptions and interpretations. Notions of

[145] Other philosophers claim that Burrell and Morgan's approach is more inclined to sociological functionalism (Chua, 1986; Deetz, 1996; Alvesson and Deetz, 2000).
[146] Although Chua (1986) has challenged this assertion.

accountability are not alien to Zambia; the concepts have existed (informally) throughout the history of the country in a unique social milieu. The challenge for such notions hinge on the extent to which they are allowed to critique and influence governance structures in the country. In the local set-up, such notions of accountability are normally expressed through the Ubuntu Philosophy touched on in Chapter Five. Though not succinctly defined, Kwamwangamulu and Nkonko (1999) describe Ubuntu as an African traditional value system seemingly at variance with Western values, or according to Binsbergen (2001), as an alternative to "extractive capitalism". Critical reflection suggests that Ubuntu implies an accountability framework reflecting fundamental values of transparency, integrity, sharing and caring and which allows individuals to feel accountable to each other, principles of which delineate good governance. The contradiction in values is largely aligned with the broadened stakeholder approach (favoured by most African set-ups) and the principal-agent approach that dominates most Western countries, perhaps precisely because Ubuntu is culturally specific. However, while most authors argue against implementing corporate governance in its Western manifestations, (Boubakri et al., 2005; Wanyama et al., 2009; Fan, 2009), accountability appears to have escaped the filtering process which other 'imported' Western concepts go through and poses less challenges in terms of its blanket unmodified application in most African societies.

While the Ubuntu notion may have diverse interpretations, this discussion is centered on its theoretical and philosophical implications as regards accountability in the Zambian context. Ngcoya (2009) argues that the Ubuntu notion is underpinned by the importance of community, solidarity, caring, sharing and recognition that human potential can only be realised in partnership with others. According to Ngcoya, respect, hospitality, reciprocity, connectedness and interdependence are key ethical tools for a sustainable social order. Similarly, Ramose (2001) believes that Ubuntu is a fundamental ontological and epistemological classification in the beliefs of the Bantu speaking people[147]. In this instance, Ngubane (1979) contends that "Umuntu (the person) cannot exist of himself, by himself for himself; he comes from a social cluster and exists in a social cluster" (p. 64). This analogy is consistent with Munro and Hatherly (1993)'s approach to accountability which focuses on the willingness and ability to explain and justify one's acts to self and others.

As demonstrated in Chapter Five, the philosophy of Ubuntu, rooted as it is in African culture, value systems and beliefs, suggests a governance model for the efficient and effective management of organisations and communal resources. In an African context, and in Zambia in particular, the infusion of Ubuntu in the governance system, can arguably enhance accountability and good governance. The ideals of Ubuntu suggests that accountability should be inherent in governance structures, thereby preventing the abuse of power and ensuring that power is directed towards the attainment of good governance. While accountability (from the Western approach) and Ubuntu (based on the African conception) are key elements for any effective governance system intended to deliver meaningful development, both paradigms embrace a broad alignment of personal accountability (ethical) which is the cornerstone for other forms of accountability. In this context, Lynch (1999) argues that Ubuntu denotes and underpins 'right' and 'wrong' behaviour at an individual and organisational level. From a philosophical standpoint, the two theories are closely linked and are based fundamentally on giving an account and being held to account. Viewed in this context, Ubuntu provides a much broader significance for understanding contemporary accountability. However, the contested issue of how to deal with the controversies surrounding the blending of contemporary (Western) accountability and the 'Buntu' way of life remains problematical. In the context of accountability, current

[147]While the Ubuntu philosophy emerged from South Africa, Bantu refers to a group of diverse languages spoken by hundreds of ethnic groups in Sub-Saharan Africa, stretching from Cameroon to Southern Africa indicating that the concept is not confined to the borders of South Africa.

thinking points to Ubuntu being highly influenced by Western notions. Notwithstanding this situation, the current thesis does not attempt to disentangle the dichotomies encompassing the two paradigms. Instead, it tries to demonstrate that in the absence of the contemporary notions of accountability that are today considered as drivers of good governance, informal traditional alternative philosophies and practices rooted in the cultural beliefs and traditions existing in most African societies including Zambia are central to any analysis of behaviour and perceptions therein.

6.7.3 Rationale for Interpretive Research Positioning

Interpretive positioning of social science research implies a belief that data alone do not speak for themselves, hence the need to be subjected to tacit quality control and judgement arrangements. Figure 6.5 illustrates the linkages underpinning the philosophical assumptions made here and how this approach is grounded in the interpretive paradigm, and the study's empirical methods and research aims. In the context of the current study, the approach permits full consideration of the (often ignored) subjective and human components of inquiry regarding the governance and accountability problems encountered in Zambia's development. The challenge for those charged with developing a corporate governance system that facilitates development in Zambia is framed by NEPAD and their vision for economic development across the African Union outlined earlier. While this aspiration remains unattainable in the majority of African nations, including Zambia, the interpretive methodological positioning adopted in the current study - linked to its accountability theoretical base - is used to try and attain a pervasive understanding of the key issues as perceived by the Zambian stakeholders themselves. As outlined in the previous chapter, accountability theory underpins the interpretations of empirical data obtained by the researcher. However, when the theoretical standpoint is allied to the interpretive approach, meaningful insights into how the social reality of corporate governance and development in

Zambia are related to one another are gained, by using the theory to underpin a functionalist methodology; it is more difficult to see how else such potential richness in the data could emerge. Put another way, the accountability theoretical foundation allows the empirical data collected from stakeholders in Zambia to be interpreted and given meaning in a social context when an interpretivist lens is employed. Such an approach is framed on the assumption that the world as it is known to individuals is essentially mind dependent, which implies in turn that claims about reality are justified with respect to the reality that stakeholders have conception of.

The beliefs of the interpretive paradigm can be developed, as Ting-Toomey (1984) proposes, to cover three important aspects of qualitative research; first, as a symbolic discourse that consists of the study of texts and conversations; second, as a study of the interpretive principles that individuals use to make sense of their symbolic activities; and third, as a study of contextual principles such as the roles of participants, the physical context and a set of situational events that guide the interpretation of discourse. In adopting an interpretive approach and focusing on Ting-Toomey's three contextual perspectives, the present study of corporate governance and development in Zambia should benefit from a more realistic feel of the world that cannot be fully experienced from the statistical analysis of numerical data common in the functionalist approach. The interpretive paradigm affords this researcher the chance to interact with the research subjects in their own language and on their own terms (Kirk and Miller, 1986).

While alternative paradigms may be useful in a corporate governance and development study, they make different assumptions about reality. The interpretive paradigm in the context of this thesis focuses on a proper understanding of Zambian stakeholders' perceived reality about effective corporate governance mechanisms' role in securing the economic interests of Zambian society. This goal is targeted by exploring the association between corporate governance and development. From the researcher's experience as a Zambian, corporate governance is a relatively new concept in the country but, equally, societies' demand for effective governance as well as responsible corporate and governmental behaviour (in the absence of effective institutions) entails a construction of reality such that the researcher needs to get close to the stakeholders, to interact and learn from them. In the context of the preceding discussion, the researcher's role here is consistent with the current study's philosophical position in that the interpretive posture dictates that the researcher and the researched are assumed to be interactively connected to create reality. Moreover, recognition of the two-directional nature of the research process is entirely consistent with the accountability notion which, as set out in the previous chapter, provides the study's theoretical underpinning. The study attempts to explore corporate governance from an economic perspective, whereby the sensitivity and complexity of the phenomena are firmly rooted in their theoretical contexts. Given the study's interpretive approach, the aim of understanding the world from a stakeholder perspective through lived experiences, ideas, feelings and attitudes coincides with the paradigm. As Hirschheim and Klein (1989) argue, assumptions surrounding the interpretive paradigm are underpinned by the subjective understanding that characterises people's social situations.

The current study's conceptualisation of corporate governance as a broad notion that extends beyond the principal-agent relationship entails epistemological reasoning whereby the researcher and the researched influence each other in order to capture and interpret multiple realities. The ontological assumptions made indicate that in such a set-up realities are multiple, experienced differently, and are socially constructed. In this framework, the interpretive paradigm provides the conditions necessary to create and give meaning to the realities as well as to gain a more inclusive understanding of what stakeholders view as the key issues surrounding corporate governance and development in Zambia; areas of both convergence and divergence can be captured in this way and generate a more complete and holistic picture of stakeholders' perceptions (Martin, 2003). However, the broad focus and diversity of corporate governance in this instance are less concerned with locating the paradigm than with clarifying how the assumptions of the identified paradigm influence the study.

The work of Burrell and Morgan has highlighted the basic assumptions (the ontological, epistemological, human nature and methodological perspectives) embedded within an interpretive paradigm of inquiry into subjective human experience and these are ideal for the research questions addressed in this thesis. There is also a growing trend in the usage of the interpretive phenomenology in generating knowledge regarding corporate governance, accountability and related topics and theories[148]. In addition, the interpretive approach offers researchers an opportunity to understand unique views and experiences as well as their meanings and environmental interactions. In this context, there is an assumption that human action is meaningful and should therefore be interpreted and understood within the context of broader social practices (Usher, 1996). Interpretive researchers are thus typically closer to the subjective notion of humans both contributing to and reflecting their social situations (Hirschheim and Klein, 1989); relevant knowledge is therefore most effectively obtained if it is observed in the context of the behaviour and actions of the individuals. Here, Cohen et al. (2004) argue that:

> "…humans actively construct their own meanings of situations; meaning arises out of social situations and it is handled through interpretive processes; behaviour and, thereby, data are socially situated, context-related, context-dependent and context-rich (p. 137).

According to Cohen et al**.,** human behaviour is dominated by the influence of extant culture**,** attitudes, emotions, values, ethics and authority. An assumption was made in the present

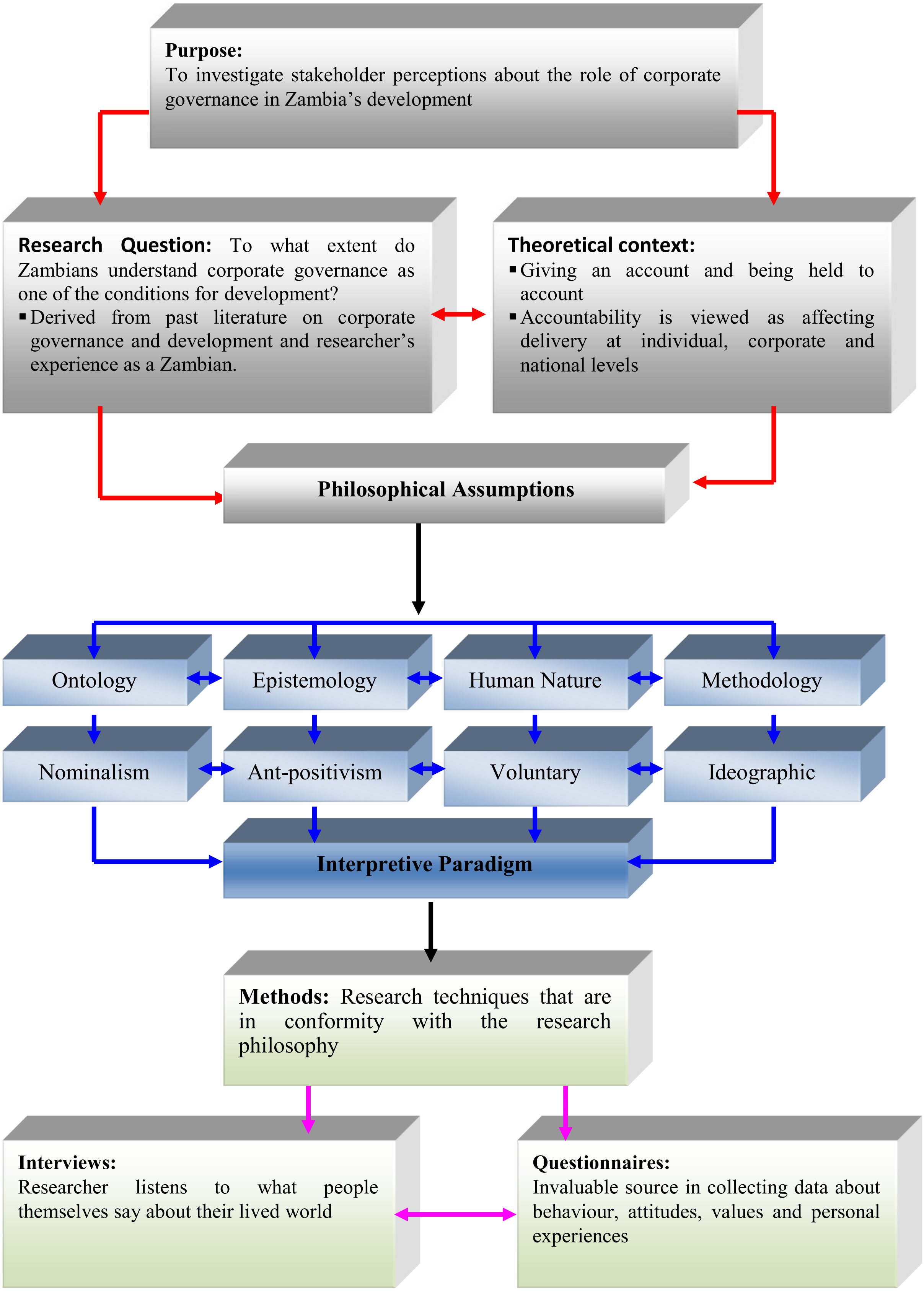
[148] For example, Dunne (2003); Wanyama (2006) and Bondamakara (2010).

study's literature review that corporate governance in Africa is influenced (among other things) by cultural values and authority. These assumptions appear to fit well with those made regarding human behaviour, which Cohen et al. believe are compatible with the characteristics of the interpretive research paradigm.

6.7.4 Summary of the Research Philosophy adopted for this Study

Figure 6.5 illustrates the linkages between the research purpose, questions, theoretical context, philosophical assumptions and the methods adopted in the present study. As inspection of the figure highlights, the purpose of the study is to investigate stakeholder perceptions about the role of corporate governance in Zambia's development. To achieve this, research questions have been developed that reflect the problem to be investigated and the theoretical underpinnings of the thesis. Research questions have been derived from past literature on corporate governance and development, Zambia's background and the researcher's own experience as a Zambian. According to Creswell (2005) establishing the research question(s) is a valuable act in terms of guiding the research process. King (2004) also argues that research questions are important in so far as locating the views of participants and making sense of their lives is concerned. Onwuegbuzie and Leech (2005) contend that research questions play a pivotal role in that they have the propensity to provide a framework for conducting the study, mark boundaries, drive the methods, dictate the type of research design, keep the researcher focused, guide data analysis techniques and stimulate research methods (Newman and Benz, 1998; Tashakkori and Teddlie, 1998).

Figure 6.5 Summary Research Philosophy Adopted for this Study



Note: The figure summarises the methodological underpinnings and methods adopted for the current study and sets them in the context of its broader philosophy and approach.

The authors further contend that to achieve the preceding aims, research questions should be well grounded in terms of theoretical positioning as well as the past literature and previous experience of the researcher (see King, 2004)[149].

Figure 6.5 further indicates that both the research questions and the theoretical perspective have a direct effect on the type of methodological assumptions made. In turn, the philosophical assumptions narrow down to a more appropriate paradigm that supports the research, including the way in which data will be collected and interpreted to achieve the study's goals. The framework of accountability ties together the research questions, the methodological assumptions and the findings. In particular, accountability theory employed in an interpretivist manner points to specific research issues as well as implying the need for a (wide) stakeholder-based approach. More generally, the reasoning adopted here is that an accountability framework allied to an interpretive methodology serves the function of binding together knowledge and providing a framework upon which it can be knowable. However, Maanen et al. (2007) argues that theories without methodological implications are of inconsiderable relevance. These authors further assume that theoretical underpinning and methods are highly interrelated, as methods generate meaningful data[150]; however, they acknowledge that while there is a presumed interplay between the two, alliance is not straightforwardly conceptualised and hence gives rise to a source of debate among researchers. In the context of this study, the relevant implication is that interviews and questionnaires are best inter-laced with the help of (accountability) theoretical substance.

[149]King argues that research questions should be located in the aims, theoretical framework and philosophical position of the research.

[150]"method can generate and shape theory, just as theory can generate and shape method" (Maanen et al., 2007 p. 1146).

6.8 Methods

The focus of this section is on outlining how the underlying methodological assumptions of the interpretive research paradigm adopted for the present study - and the characteristics of the specific research questions - influence the choice of methods. The thesis's basic methodological assumptions regarding the nature of science and society have been discussed in previous sections, and so the present discussion drills down to the selection of research techniques that conform to the paradigm in which the research is located. The term 'research method' relates to any specific technique used in social science research to collect data (Bryman, 2001). Investigating the perceived role of corporate governance in Zambia's development necessitates the collection of data from stakeholders in the process. To achieve this aim, identifying the most appropriate empirical methods is critical. While research methodology is primarily concerned with the philosophical questions about how research should be conducted, research methods are the techniques and procedures that are used to obtain and analyse data (Saunders et al., 2009). The aim of this section is not to give a detailed account of each method in terms of its merits and demerits, but rather to explain how they fit with this study's theoretical and methodological positioning as data collection tools in gathering knowledge about corporate governance and development in Zambia.

6.8.1 Data Collection

Beiske (2002) notes that large numbers of data collection methods are available to any modern research in interpretive study. These methods range from questionnaires, observations and interviews through to case studies. Given this thesis's interpretive approach, it emphases two data collection methods, interviews and questionnaires. Although Arnon and Reichel (2009) acknowledge that a mixed methods approach in a single study may raise problems of conflict between the techniques adopted, Creswell and Clark (2007) argue that the combination of two data collection methods in the same study is no longer a matter of dispute, but is instead an acceptable approach to investigation[151]. While one approach may be adequate, Gillham (2000) argues that the multi-method approach to research is essential and gives greater authority to the findings, especially if the results of different methods fit together. The combining of different methods has the advantage of technique complementation (Beiske, 2002; Saunders et al., 2007); for example, the potential limitations in depth of questionnaires can be addressed appropriately by structured interviews[152]. The mixed-method approach adopted for the present study adds reliability to the data collected because the same phenomena are examined using two different research methods. By drawing on the strength of each other, Bryman (1988) posits that a two-method approach has the propensity to provide a more complete picture of a phenomenon. Similarly, Harris and Brown (2010) note that questionnaires surveys and semi-structured interviews are often employed to produce corroborative results irrespective of differences in methods of data collection, analysis and interpretation (see Denzin, 1970).

6.8.2 Rationale Underlying Simultaneous use of Interviews and Questionnaires

Data collection can be undertaken through the use of a single method or a mixed-methods approach. In this regard, the current study employs the latter, specifically semi-structured interviews and a questionnaire survey. While some researchers prefer to start with questionnaires before conducting interviews (Mushayikwa, 2006; Moscovici, 2008) others favour the reverse (Jarratt, 1996) - with some studies settling for a simultaneous approach (for example, Hart et al., 1992; Arnon and Reichel, 2009). In the current study, the interviews and questionnaire were conducted simultaneously. This choice was largely practical; both the study period and the scholarship budget did not provide for the time extension and extra budget that would have permitted sequential field work in Zambia.

[151]To this effect Denzin (2010) notes that a 'Journal of Mixed Methods Research' devoted to publications adopting this approach has been established.

[152]Jick (1983) also argues that weaknesses in one method are counter-balanced by the strengths of another.

However, as Jarratt (1996) argues, the extant literature on methodology provides little clear guidance on the "best" mode of method integration. Similarly, Creswell (2003) affirms that mixed-method research can be administered sequentially or simultaneously with no restriction in terms of order. Equally, Flick (2002) posits that the order of integrating two different methods remains unresolved in terms of whether it has to be a 'one-after-the-other' or a 'side-by-side' approach. As regards order, Palinkas and Soydan (2012) contend that whether used simultaneously or in sequence the complementarity substance is not disoriented.

6.9 Interviews

The interpretive paradigm has been explained as the philosophical context for the present study, with the associated ontological assumption that reality is created by one's consciousness (Burrell and Morgan, 1979; Siau and Rossi, 2011). In this context, interviews facilitate the interaction and capturing of stakeholders' views regarding corporate governance in relation to their own experiences and perceptions of how it impacts on Zambia's development. Lofland and Lofland (1996) suggest that in order to acquire social knowledge (i.e. knowledge relating to human activities, concepts and ways of 'being' social) the inquirer must get as far inside the mind of other human beings as possible. In this sense, the research is not viewed as an abstract notion, but instead involves interactions with others and understanding of the way in which actors make the world meaningful in their own terms (see Krauss, 2005). Epistemologically, the inquirer and the inquired are interconnected (Al Zeera, 2001) co-creating the knower and the known (Krauss, 2005). These assimilated paradigmatical notions coalesce here to generate a study of the characteristics of corporate governance and its impact on Zambia's development that is holistic in nature. Similarly, Kvale (1996) states that:

> "If you want to know how people understand their world and their life, why not talk with them? In an interview conversation, the researcher listens to what people themselves tell about their lived world, hears them express their views and opinions in their own words, learns about their views on their work situation and family life, their dreams and hopes" (p. 1).

For Kvale, the role of interviews is as a tool to understand the world from the subject's point of view and thereby uncover the meaning of people's experiences[153]. Interviews have increasingly been used as a research method in social sciences (Kvale, 1996); in particular in corporate governance related research (Solomon, 2010). Scholars argue that interviews enrich the conception of knowledge (Kvale, 1996).

The outcome of the interviews in this study will be a narrative account of the stakeholder interviewees' knowledge and experiences relating to corporate governance and development in Zambia. The selection of individuals to be interviewed was based on the nature of the stakeholder's involvement in the governance process, the extent of their association with the corporate governance change process in Zambia, their perceived degree of commitment in the development process and, finally, their willingness to participate in the research. It is hoped that the account which emerges will provide detailed understanding and explanations of the interviewees' subjective experiences, which will then be analysed to identify common themes and viewpoints. Once common themes are identified, generalised description is attainable; in this context, Husserl (1970) contends that because human beings are to a large extent influenced by perceptions of what is real, to understand human motivation subjective information is critical.

Interviews are commonly used in the context of inquiries involving stakeholder's perceptions that constitute a research site, and have remained a lead research method in this field. Given the methodological assumptions underpinning this study, a semi-structured

[153]Kvale (1996) refers to qualitative research interview as a construction site of knowledge. "An interview is literally *inter view,* an interchange of views between two persons conversing about a theme of mutual interest" (p. 2).

interview method was employed[154]. Questions were specified and the interviewer sought more elaboration from the interviewees as a way of enhancing the quality of data. The interviews were conducted over a period of two and half months, (1st May 2011 to 19th July 2011) during which 24 interviews were conducted with individuals from different backgrounds and sectors. The design of the interviews was intended to focus on the corporate governance landscape and its perceived role in Zambia's development from the perspectives of various key stakeholders within the country. As noted earlier, the topic of the present study is twofold, i.e. the extent nature of the country's corporate governance profile and the perceived association between the latter and economic development. For clarity and for academic convenience, the interpretations of the interview findings are divided into two chapters - Chapter Seven and Chapter Eight. As the first detailed research of this kind in Zambia, participants appeared to find the topic not only interesting but relevant to Zambia's economic performance and development. In this context, most interviewees were only restricted by time and not ideas. For example, one participant (C01), a senior academician interviewed at his residence remarked that "I wish we had the whole day just discussing corporate governance and development in Zambia." The interviewer ended up with large bodies of evidence and the split into two chapters was influenced by much of this appearing to be both useful and directly relevant to the study. In order to capture the novelty of the participant's views, a systematic review of evidence from all participants was the inevitable option. Chapter Seven therefore focuses on findings concerning extant corporate governance in Zambia while Chapter Eight concentrates on the association with development as well as exploring the perceived importance of accountability to the matters being discussed.

The interviewees were identified in order to facilitate a diversified stakeholder perspective. In order for the interviewees to contribute to corporate governance research effectively, the

[154] A copy of the semi-structured interviews guiding questions is included in Appendix 6.1

selection process was based on capturing individuals with knowledge and experience relevant to the subject. To achieve this aim, interviewee selection was broad-based, including people from various stakeholder groups such as: members of the Institute of Directors of Zambia (IODZ); researchers and academicians; the Government; Non-Governmental Organisations (NGOs); the Lusaka Stock Exchange (LuSE); Chief Executive Officers (CEOs) from the private and public sectors; regulators; governance consultants; international organisations; the National Assembly; multinational companies and individuals. Details of the final sample of 24 interviewees are given in Table 6.1 below.

Table 6.1 The Interviewees

	Interviewee	***Sector***	***Interviewee code***	***Experience***
1	Researcher/ Lecturer	Academician	C01	**25 years**
2	Executive Director	NGO	C02	**12 years**
3	Executive Management	IODZ	C03	**8 years**
4	World Bank	World Bank	C04	**15 years**
5	CEO	Lusaka Stock Exchange	C05	**4 years**
6	Executive Director	NGO	C06	**21 years**
7	Executive Management	Zambia Business Forum	C07	**20 years**
8	Executive Director	Parastatal Organisation	C08	**16 years**
9	Past IODZ President	Governance Consultant	C09	**30 years**
10	C.E.O	Multinational	C10	**18 years**
11	IODZ	IODZ	C11	**20 years**
12	Management	Government Agency	C12	**15 years**
13	Executive Director	Regulator	C13	**23 years**
14	Senior Economist	Africa Development Bank	C14	**7 years**
15	Executive Management	Economic Commission for Africa	C15	**30 years**
16	Senior Auditor	Office of the Auditor General	C16	**6 years**
17	Executive Management	Private Sector	C17	**20 years**
18	President	IODZ	C18	**29 years**
19	Researcher/ Lecturer	Academician	C19	**35 years**
20	Economic Committee - Chair	National Assembly	C20	**24 years**
21	Chairperson - PSDA	Consultant, Businessman	C21	**22 years**
22	Consultant	Research and consultancy	C22	**43 years**
23	Consultant	Governance Consultant	C23	**39 years**
24	**Researcher/ Lecturer**	**Academician**	**C24**	**20 years**

Note: The table provides details of the interviewees taking part in the study. The table does not disclose the names of individual participants as they were guaranteed anonymity.

6.10 The Interview Process and Challenges Encountered

6.10.1 The Interview Process

This section highlights the process adopted and problems encountered in conducting the semi-structured interviews in Zambia. Based on the literature review, the theoretical framework and philosophical assumptions, (see Chapters Three, Four, Five, and Six) three sets of questions were developed to answer the research questions of this study: one set targeting interviewees in government, its spending agents and SOEs; another focusing on the private sector and the LuSE; and a third for NGOs and all other stakeholders not captured in the first two categories. Although there are close to 73 languages spoken in Zambia, English is the recognised official language particularly in schools and for business purposes (see Chapter Two) and as such all the interviews were conducted in English. Confidentiality was always reassured in terms of identity and the use of data. The first set of the questions in all three categories centred on detecting interviewees' knowledge of the subject and how they viewed the current corporate governance situation in Zambia. This section of interviews was arguably the most straightforward and so was undertaken at the start to allow the participants to relax into the discussions. The second part focused on the interviewees' perception of corporate governance's role in Zambia's development while, given the theoretical underpinning of the study, the last part investigated the role played by accountability in the participants' view of governance and development.

The process itself involved identifying potential interviewees, obtaining contact numbers, making appointments, arranging interview meeting places, digital voice recording of questions and answers, the interview itself and the interviewee filling out a form in terms of organisation, position, role, education, qualification and experience. A word of appreciation was also given at the end of each session for the interviewees' commitment. Appointments were then arranged with the selected interviewees personally or by phone. Interviews were conducted at times and areas preferred by interviewees. Most of the interviews were conducted in interviewees' official working offices as a way of creating confidence; however, one interview was conducted in a garage while mechanics were repairing the interviewee's vehicle and another one was conducted after hours at the interviewee's residence. Two interviewees preferred to be interviewed at 07:00 hours in the morning before people started reporting for work. The face-to-face interview duration averaged 1 hour with the shortest being 30 minutes at a highly sensitive government office where both the interviewer and interviewee were watchful and conservative. None of the interviewees objected to having the discussions recorded and their particulars matriculated. However, four of the interviewees did not want certain parts of the interview to be taped because of 'security' concerns. Three-quarters of the interviewees showed interest in the outcome of this research. For completeness and systematic order, the wording of questions was tailored according to the sector the interviewee was representing.

6.10.2 Specific Interview Challenges

Interviews in Africa, a continent which suffers from serious governance and accountability deficits (World Bank, 1989; Amoako, 2003; Rossouw, 2005; Wanyama et al., 2009) are assuredly problematic because they are generally treated with suspicion and caution by potential interviewees (Akokpari, 2004; Ayittey, 2010). Worse still, in the present case, the interviews were conducted during the period when the relationship between the Zambian government and some key donors was lukewarm, as some of the latter were withholding funds over governance - and accountability-related issues. This was further complicated by the fact that interviews were conducted just two months before highly competitive presidential, parliamentary and local government elections. Political campaigns during this period mostly centred on governance, accountability and corruption. As such, in some quarters, there was a misrepresentation that the researcher was probing these and other related issues on behalf of the Western countries' sponsored donors that had been spearheading attempts to improve governance and accountability around foreign assistance to Zambia. As opposition parties and most NGOs articulated these issues, the government viewed anyone holding discussions or making reference to governance as supporting the opposing camps and, hence, as unwelcome in government corridors. Equally, on the opposing camp, some potential interviewees expressed scepticism; the notion of "are you with us or with them?" was evident here. NGOs too were divided between pro-government and others. This heterogeneity made the whole process of dealing with stakeholders even more complex as each faction had its own reservations. However, individuals not connected to these camps and those representing the private sector were never hostile to the extent of refusing an interview.

6.10.3 Interview Appointments

Although the identification of interviewees was relatively easy, several of those who agreed to take part changed their minds at the last minute. In other cases it turned out to be a very difficult process as the researcher had to go through third parties such as security check points, personal assistants and office secretaries; this was the norm in government ministries, SOEs, private and large multinational companies where potential interviewees did not actually turn up for interviews. It was sometimes due to time factors, while others just changed their minds and/or kept shifting the appointment dates. For example, a potential Chinese interviewee whom the researcher had a useful conversation with on the phone in English viewed everything with suspicion and scepticism and turned down the appointment on the pretext that he did not understand the English language. Other potential interviewees just disappeared with their contact details. In contrast however, some appointments were made and interviews conducted at short notice.

6.10.4 Government and Government Departments

As mentioned earlier in this chapter, making an appointment and later conducting an interview with government officials was the most difficult part of the fieldwork in Zambia. Attempts were made to interview the Minister of Commerce and Trade and the Permanent Secretary in the same Ministry, as well as one of the Deputy Ministers of Finance, one of the Directors in the same Ministry, the Secretary to the Cabinet, officials in the Ministry of Justice under which the governance secretariat is housed and also the focal point for the APRM, five SOEs and four government spending agencies. In most cases these efforts proved futile despite assurances that the study was being conducted on an anonymous basis. The apprehension and fear seemed to be real in government departments; a number of potential interviewees cited the politically-sensitive nature of governance - accountability - and corruption-related issues in the country as an impediment. Nevertheless, through the Clerk of the National Assembly, the researcher was granted access to members of parliament. Out of the five members that were contacted, only one Member of Parliament turned up for an interview. Government officials who showed interest in interviews preferred to be interviewed in their individual capacities and at locations that had nothing to do with government. One potential interviewee from government declared that:

> "Issues of governance in general, corporate governance, corruption, accountability and transparency are not normally discussed openly in government circles because they are viewed as too political and therefore anyone talking about such issues negatively are looked at as biting the finger that feeds them. So we are constrained because either you keep quiet or you say good things even when you know deep down in your heart that things are not alright. If you say anything perceived to be negative on these controversial issues, you are immediately linked to the party in opposition and you do not support government programmes. This can see you out of employment, so our hands are tied."

This comment gave the researcher the impression that such individuals were keen in principle to participate in the interviews but the system did not permit them to do so freely. In a twist of events, an SOE manager declined to be interviewed and instead started interviewing the researcher. Notwithstanding these difficulties, those who were interviewed expressed their appreciation that a study was being conducted on corporate governance and development in a Zambian context.

6.11 Questionnaires

The use of questionnaires as a data collection method has been common in most aspects of social science research for many years (Kotzab, 2005). Similarly, Oppenheim (1998) maintains that the great popularity of questionnaires in social science research remains unabated. Zicmund (2000), De Vaus (2002) and Bless and Higson-Smith (1995) define a questionnaire as a "set of questions with fixed wording and sequence of presentation, as well as more or less precise indications of how to answer each question" (p.107). As a social science research method, questionnaires allow the researcher to collect useful data at a reduced cost and are relatively straight-forward from a respondent point of view (Seale and Bernard, 1998; Beiske, 2002). While Chesson (1993) warns researchers about the complexity in the questionnaire construction process, with a high demand on researcher time, Dörnyei and Taguchi (2010) argue that the propensity to capture factual, behavioural (i.e. people's actions, lifestyles, habits and personal history) and attitudinal (i.e. attitudes, opinions, beliefs, interests and values) data from respondents merit the employment of questionnaires. This characteristic fits well with the interpretive paradigm, whereby relevant knowledge is assumed to be obtainable if it is observed in the context of the behaviour and actions of individuals. Human behaviour is influenced by culture, attitudes, emotions, values, ethics and authority (see Cohen et al., 2004). The interpretive research paradigm's assumptions are framed on the belief that individual participants or stakeholders construct their knowledge based on their personal beliefs and experiences in society; the implication for epistemology, as argued by Usher (1996), is that human actions have to be interpreted and understood within the context of social practices. The aim of the questionnaire used in this study is the capture of information about stakeholders' beliefs regarding corporate governance (including its implications for development in Zambia), with the views expressed reflecting the individuals' personal experiences and societal circumstances.

The questionnaire survey used in the present study is divided into two sections. The first section aims to extract information on participating stakeholders' knowledge of corporate governance while the second section is intended to elicit information on participants' beliefs about corporate governance and its implication for development in Zambia. Although the questionnaire method is qualitative in nature, a limited degree of quantitative analysis will be used in interpreting the results. Miles and Huberman (1974) contend that in qualitative studies, researchers are allowed "to use small samples of people nested in their context and studied in depth" (p. 27). Despite their limitations, Kotzab (2005) argues that questionnaires are highly suitable for, and widely used in, prescriptive research (see Saunders et al., 2007).

6.11.1 Questionnaire Design[155]

Undeterred by the mixed views in the prior literature regarding how many questions should be contained in a questionnaire, Gillham (2000) maintains that other things being equal it should be as short as possible. This thinking influenced the design here, although all questions were carefully laid out to attempt to ensure that each participator would understand them in the same way. According to Collis and Hussey (2009) this is a key requirement for a questionnaire survey. The questionnaires were pre-tested for structure, suitability of scale, replicability and validity by circulating them within the School of Business at the University of Dundee; accordingly, adjustments were made before the actual survey was conducted. Although it is almost impossible to eliminate all misunderstandings in a questionnaire (Gillham, 2000), pre-testing is a means of detecting faults, ambiguity and

[155]A copy of the questionnaire is provided in Appendix 6.2

misleading questions before the survey document is actually administered (Williams, 2003; Proctor, 2005). Gillham (2000) points out that questionnaires can contain open or closed questions; a closed question is one that is accompanied by pre-determined answers, with a respondent having a choice of selecting one from a range, or requiring ranking of specified factors, whereas open questionnaires contain questions that require respondents to write answers as they see fit. Closed questionnaires are relatively easy to administer as they do not need the researcher's presence at the time of filling in (Collis and Hussey, 2009). Although closed questionnaires are generally easier to code and analyse, Gillham (2000) contends that the originality and discovery elements are affected negatively by the range of possible answers that come with them. For closed questionnaires, answers can be as simple as choosing between yes and no or selecting a position on the 'agree - disagree' continuum. Gillham (2000) argues that open questionnaires maintain originality and can lead to greater discovery. Given the array of advantages that accrue to closed questionnaires such as time, cost, self-administration, respondents' anonymity, standardisation of questions and easy to analyse, the current study employs a closed questionnaire survey approach. However, the last part of the survey document offers respondents the opportunity to add information relating to the topic that they thought was important, but had not been addressed elsewhere.

6.11.2 Questionnaire Administration

Questionnaires were distributed to participants drawn from various diverse stakeholder groups on the basis of likely interest in the research topic. Nonetheless, the questionnaire distribution process was not straight-forward because, as it is common with most questionnaire surveys, participation depends to a large extent on the willingness of participators. Williams (2003) argues that if the topics embodied in a questionnaire are relevant and of interest to them, stakeholders get excited and this enhances the response rate. Buying into Williams' view, participant selection was influenced by such characteristics;

this method is referred to as ‘judgement-based’ or ‘purposive sampling’ (Coviello and Jones, 2004). Williams (2003) maintains that the approach to questionnaire administration is likely to influence the response rate and the quality of data collected; similarly, Gallhofer and Saris (2007) contend that the selection of respondents must be conducted in a way that does not influence the results. While the researcher bias can occur under purposive sampling, it is intended that the approach would not in any way influence the results or subdue representativeness in terms of incorporating diverse stakeholder experiences. Though costly and time consuming, most of the questionnaires were distributed and collected back personally by the researcher although a small number were received by post or e-mail.

The issues of anonymity and confidentiality were made clear to all respondents through an accompanying introductory letter referring to the University of Dundee (see Appendices 6.3 and 6.4). The assurance of anonymity was enhanced by making demographic information optional. Non-traceability by not using the names of participants or any other personal means of identification proved to be a crucial factor for government and SOEs’ employees in particular. Confidentiality and anonymity of participants’ identities is widely recognised as being important in research (Frankfort-Nachmias and Nachmias, 1992). This is in line with Collis and Hussey (2009)’s view who noted that respondent confidence in anonymity enhances questionnaire response rates. Other participants’ identities were concealed through the use of codes.

6.11.3 Reliability and Validity

Reliability is the extent to which the measure gives consistent results under identical conditions, while validity is anchored on the accurateness of the measure (Gillham, 2000; William, 2003; Cohen et al., 2007). Cohen et al. (2007) maintains that the two notions are conceptually different; for example, reliability does not imply validity. Cohen et al. argue that a reliable measure records phenomena consistently, but does not necessarily measures what it is supposed to. In this context, it can be deduced that reliability is related to precision while validity is concerned with accuracy. William (2003) ends that data collected through questionnaires must be valid and reliable if they are to produce quality results. Similarly, Gillham (2000) points out that because most respondents are assumed to handle questionnaires without much thought, questionnaire data pose quality problems. Accordingly, Williams (2003) applauds a view that for the data collected through a questionnaire to be intelligible, the testing of both validity and reliability of the measures used is paramount. In line with the preceding argument, Cohen et al. (2007) argues that there are various classifications of validity and reliability and a complete eradication of either is effectively impossible. As the present research is located in the interpretive paradigm, not all types of validity and reliability assumptions are relevant. For the purpose of this research, reliability is treated as dealing with the consistency of the measures and findings (see Bryman and Bell, 2007) while validity is concerned with the requirement that the measures employed measure what they purport to measure (see Cohen et al., 2007). Williams (2003) states that: "A questionnaire can be said to be 'valid' if it examines the full scope of the research question(s) in a balanced way, i.e. it measures what it aims to measure" (p. 249). Proctor (2005) refers to reliability as the "consistency in reaching the same results when the measurement is made over and over again… while validity is the degree to which the questions measure what it is supposed to be measuring" (p. 208) (see Collis and Hussey, 2009; Field, 2009). Proctor (2005) points to questionnaire pre-testing as one way of enhancing reliability. Other ways of enhancing reliability and validity include: 'thoughtful' sampling, appropriate measures and mindfulness of validity and reliability throughout the research process (Cohen et al. 2007). Correspondingly, in order to minimise invalidity, certain measures were taken into account here, these include: honesty, richness and scope and the objectivity of the researcher. The interview process allowed for an expansive and detailed scope without being pressurised by pre-arranged categories of analysis, thereby providing depth, openness and detail of qualitative analysis as a complement to the questionnaire findings.

6.11.4 Coding

To expedite the analysis process, it is common for questionnaire data to be organised into useful classifications, a scheme called 'coding' (Williams, 2003). Coding facilitates the entering of data directly into data analysis programmes such as Mintab or SPSS. Williams suggests that the SPSS is a useful software package for questionnaire surveys because it is flexible and easy to use. As explained above, the demographic data was analysed into sectors for purposes of this study while the thematic questions were coded according to themes, question number and sub-questions or statements. For example, the code 'CGQ5A' stands for corporate governance (CG theme), question 5 (Q5) and sub-question (A). The analysis in this case shows the respondent classification (PVT, SOE, GG, NGO, OS)[156] followed by the respondent's choice on the Likert scale for individual questions. After the coding of responses the data was input into the SPSS programme for analysis. The range of possible answers were given in a closed-end questionnaire arrangement; the analysis therefore focused on finding out which answers were selected and in what order and also on detecting possible relationships or patterns in the way respondents answered. Although closed-end questionnaires lack the element of discovery and originality - "unless there is a very unexpected pattern to the answers selected" - (Gillham 2000, p. 2) as a complementary method, Gillham argues that the analysis is not sophisticated as only frequencies and trends need to be discovered. It is unsurprising therefore, that the majority of published analyses are based on discovering relationships and trends across demographic groupings.

[156] PVT = private sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS = Other Stakeholders.

6.12 The Co-Relationship: Semi-Structured Interviews and Questionnaires

As noted above, semi-structured interviews and questionnaires complement each other via their varied strengths and weaknesses. Interviews, by their very nature, are not designed to cover a wider spectrum of potential participators hence the need to employ a questionnaire survey that has the propensity to over-ride this limitation. Kratochwill et al. (1999) and Busse and Beaver (2000) contend that semi-structured interviews are modifiable and flexible as probing - through follow-up or rephrased questions seeking clarification or further explanation - can be used to clarify ambiguity in interviewee response. This is an advantage over a questionnaire survey where misinterpretations on both sides cannot be corrected because they are usually left with respondents to be completed at their own convenience. Apart from the complexity in construction, other questionnaire drawbacks in practice can include low response rates (Seale and Bernard, 1998; Bell, 1999), a lack of follow-up questions, poor clarity of issues (Beiske, 2002; Bell, 1999), inappropriate use of open-ended questions and underlying rationales for the outcomes that are not fully explained (Saunders et al., 2007). The other demerit of questionnaires is that they do not normally uncover new ideas as the researcher determines the questions that are asked and also determines the range of answers that can be given. On the other hand, Genesee and Upshur (1996) note that questionnaires have an advantage relative to interviews as they can be administered simultaneously to many respondents, whereas interviews require that each interviewee take part individually. The authors further point out that while interviews can be conducted with interviewees who cannot read or write, questionnaire respondents must be literate. The current study is based on collecting data relating to stakeholders' perceptions about the association between corporate governance and development in Zambia. To achieve these aims, interviewees should obviously be allowed to communicate as freely as possible their detailed experiences of human life. In this context, Ohman (2005) argues that questionnaires, by their very nature, are usually too 'confined' in terms of revealing broad stakeholder thoughts and experiences; as a consequence, interviews are required as a complement to surveys as they generate rich data covering stakeholders' perceptions, feelings, experiences, motives, attitudes and knowledge.

The discussion above suggests that, despite the cost implications, semi-structured interviews allow relatively great depth and understanding of the issues concerned, thereby complementing the (usually) cost-effective questionnaire instrument's limitations in terms of the pre-determined range of answers that respondents choose from. The strengths and limitations of both methods indicate that the two can be most effective when employed in conjunction with one another. Correspondingly, Bergman (2008) points to mixed-methods research design recently seeing a sharp increase in popularity. The fundamental view that semi-structured interviews and questionnaires are complementary and not mutually exclusive supports their legitimacy and popular use.

6.13 Conclusion

This chapter has outlined in detail the methodological assumptions guiding this study. While there are various methodological positions available to social science researchers, the present study adopts an interpretive paradigm and the (concealed) set of basic assumptions associated with it. The interpretive paradigm creates a conceptual framework within which the ontological, epistemological, human nature-related and methodological assumptions regarding corporate governance and development can be investigated in a meaningful way; this approach blends in well with the present study's theoretical foundations outlined in the previous chapter. As the study investigates stakeholders' perceptions relating to corporate governance and its role in Zambia's development, interviews and questionnaires are the data collection methods considered most likely to be effective in gathering the data needed to address the research questions posed. Exploration and insight rather than experiment is the emphasis for data collected and analysed in an interpretive research paradigm anchored on the assumption that the social world is created by individuals. In this context, questions that deal with understanding phenomena in terms of 'how' and 'why' can be better addressed by interpretive research endeavour. Having outlined the extant literature, theory and methodology relevant to the present study, the emphasis now shifts to the empirical results. To this end, the next chapter focuses on the analysis of the interview results.

CHAPTER SEVEN

INTERVIEWS: CORPORATE GOVERNANCE IN ZAMBIA

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7.1 Introduction

This study set out with the aim of assessing the significance and implications of corporate governance for Zambia's development in a broad accountability framework; prior studies including (Oman, 2003; Siddiqui, 2010) have noted the particular importance of corporate governance for developing nations. Given the detailed and fulsome responses made by the interviewees, a decision was taken to present the interview findings in two chapters; views regarding the broad notion of governance are outlined in the current chapter and the perceived linkage to development is discussed in the next. The rest of this chapter therefore outlines the main themes relating to corporate governance experiences that emerged during the interviews. The chapter is structured as follows: Section 7.2 focuses on Zambia's corporate governance experience, covering government, public and private sector viewpoints; Section 7.3 then considers corporate governance definitions and implications for the Zambian environment before Section 7.4 deals with outside influences on local corporate governance codes and principles. Section 7.5 is concerned with corporate governance compliance in Zambia, while Section 7.6 analyses the forces behind corporate governance reforms in Zambia. Section 7.7 concludes the chapter by summarising and reflecting on the key findings.

7.2 The Corporate Governance Experience in Zambia

7.2.1 Governance in Zambia

As noted earlier in this thesis, the notion of corporate governance has gathered worldwide importance over the past twenty years yet the great majority of interviewees suggested that in Zambia the concept remains relatively new and, as such, a great majority of Zambians lack meaningful awareness and understanding of its implications for corporations, the people and the economic well-being of the country. This finding is consistent with the literature review and those of the APRM Zambia Country Self-Assessment Report (2010) (see Chapter Four for details on this report). Typical of the views in this regard, interviewee C03 articulated that:

> "Corporate governance in Zambia is a green field and a lot needs to be done because there are people that are not even aware that there is a thing such as corporate governance. For those that have an idea when you talk of corporate governance they tend to associate it with corporations and not that every entity is covered under corporate governance"

Indeed, an extensive corporate governance literature on Africa locates this deficiency in most African countries[157]. However, as an area under intense external scrutiny in so far as it relates to foreign aid, the corporate governance landscape is beginning to change, with sustained internal pressure mounting across different sectors of the Zambian economy (Zambia Country Self-Assessment Report, 2010). With the establishment of the Institute of Directors of Zambia (IODZ) as noted by interviewees (C03, C05 and C12) and the corporate governance developments taking place both in and outside the country (mentioned by C05, C09 and C12) the concept has (according to interviewees C11 and C12 as well) started gaining considerable recognition. To this effect, interviewee C09, past President of the IODZ, highlighted that tremendous work has been done since its inception in 2000, declaring that:

> "We have started a process in our country and we can point to some gains that we have achieved in this area. From the late 1990s to date, much has been done but much more needs to be done. In particular the government, being a key stakeholder, is an area where things are still in a very bad shape. The government has ratified a number of international standards on corporate governance, but they do not seem to have use for them. Equally, corporate governance has not moved at a fast pace particularly in government-controlled enterprises."

[157]Zagoub (2011) found similar responses in another African country – Libya.

Interviewee C09 appears to suggest that, despite the proliferation of numerous corporate governance standards, sharp variances exist between practice and reality. Nonetheless, in recognition of, and in line with, current corporate governance developments interviewee C23, a governance consultant, pointed to: the establishment of a governance secretariat - with a corporate governance annex - by the Zambian government; the introduction of the IODZ and the consequential creation of three sets of local corporate governance guidelines as evidence of a significant shift in attitudes amongst Zambian authorities.

7.2.2 Corporate Governance Scope

As discussed in Chapter Two of this thesis, the modern Zambian economy is copper-centric, with mining companies continuing to account for over 70% of total export earnings. The economic reforms of 1991 focused on relaxing the government's dominant control of certain major firms and saw the state surrendering a number of enterprises - including the mining companies - to private investors. Interviewee C20, a former SOE Head, believed that one of the reasons for the privatisation of SOEs was to strengthen corporate governance frameworks and eliminate 'negative' political interference; under government control, decisions were not made on a commercial basis, but instead reflected political expedience. Effective corporate governance practices were not part of the agenda. In this context, interviewee C18, the current President of IODZ, suggested a role for the stakeholder notion thus:

> "Under state control we never took business seriously, people did not feel that personal touch or personal responsibility because whether they worked or not they were still paid a salary at the end of the month. But now people are beginning to realise that we need to work very hard to sustain our businesses, and this is where corporate governance becomes very important. Once we embed corporate governance in our structures and cultures everybody is a stakeholder and therefore must play a role in creating wealth".

Equally, the coverage of corporate governance issues in the local media was pointed to as part of the problem, particularly with respect to the public media where government has enough control to potentially create a vicious circle in terms of openness in the public sector.

7.2.3 Corporate Governance - Government and Public Sector Perspectives

As the dominant stakeholder in national economies, governments are now assuming a greater and more direct role in corporate governance discussions with a view to restoring the corporate integrity and market confidence critical for economic prosperity (Josiah et al., 2010). It is against this background that government representatives were enlisted as potential interviewees here, both in their role in promoting corporate governance across Zambia as a whole and also with regard to corporate governance practices within government. Interviewee C05, the CEO of the LuSE, noted that there is a general misconception that the renewed attention on corporate governance standards only relates to the corporate community; on account of this misinterpretation, corporate governance has for a long time been stifled in most government-controlled establishments. However, from a normative point of view, interviewee C11, representing the IODZ, asserts that 'good' governance is important for all organisations irrespective of whether they are government-controlled or private. Both C05 and C11 remarked that apart from being the largest consumer of products and services, the Zambian government manages a huge public resource base on behalf of the Zambian people - corporate governance in this context is therefore critical in the management of the country's economy. Correspondingly, interviewee C19, a highly experienced academic, believed that the fundamental responsibility for corporate governance lies squarely with the government. Consistent with this view, another academic, C01, stated that:

> "From the government's point of view corporate governance is extremely important because government relies on the corporations to raise revenues, so there is a direct relationship between corporate governance in the corporate sector and corporate governance in government. No one is exempted from corporate governance, if

> government is excluded for example, that will be the haven for people to misuse public resources".

In line with C01's argument, interviewee C21 suggested that:

> "The country's budget is in trillions; therefore the management and application of these resources are very important to the well-being of the people and the country. In this context, corporate governance is very important in running a government. We can simply say government is the biggest company in the country and all its decisions affect all other companies. Each Ministry has the potential to do damage in this country in the absence of good corporate governance".

Endorsing this line of thought, interviewees C14 and C18 also subscribed to the notion that a robust corporate governance framework is important not only in the context of the running of corporations, but beyond the board to include government, NGOs, Unions and Churches[158]; it is a joint responsibility between the public and private sectors. For interviewee C21, issues of accountability, transparency and disclosure have been a problem in most organisations including faith-based organisations, NGOs and elsewhere such as within the Football Association of Zambia (FAZ).

While governance codes have been initiated for companies quoted and listed on the LuSE, the financial sector and SMEs, interviewee C11 noted that SOEs and government spending agencies have not been subject to the new regulations, despite this being the tier which is most vulnerable to manipulation. For example, reflecting the lack of strong corporate governance principles, three interviewees from very different backgrounds (C18, C20 and C22) all acknowledged and justified the current stakeholder outcry regarding the abuse of SOEs, some of which have not been audited for as long as 10 years; C20 declared that:

> "SOEs are sometimes abused by our government by asking them to contribute to election campaigns for the ruling party. For example, recently the Zambia Electricity Supply Corporation (ZESCO), a government-controlled corporation, under government instruction was distributing geysers in some areas where they do not have running water just to entice the voters. Now the question is if ZESCO has a proper functioning board can they approve such a project"?

[158]Ronan (2004) noted similar sentiments

The current circumstances, according to interviewee C20, represent a huge challenge for the public sector because the governance structures are such that the shareholder (i.e. the government) is represented by a Minister who, in most cases, brings a political agenda to the table, ignoring the broader objectives of which the firms were created. Some ministers are so powerful that they can even fire the entire board and constitute another one at a press conference. Here, C20 stated that:

> "The Minister can change the decisions of the board, or can directly or indirectly influence decision-making at board level. We have had cases where the Minister gives instructions directly to the CEO and CFO and these instructions have to be obeyed whether the board approves or not. The board is supposed to be governed by resolutions and not individuals. If the boards are left to make decisions and not Ministers it will make a lot of difference in terms of corporate governance".

The failure of oversight by the invisible shareholder (government) as portrayed above is an indication that corporate governance in the Zambian public sector - and government itself - is defective. Interviewee C09 pointed out, however, that although there are corporate governance deficiencies in government, government spending agencies and SOEs, the landscape appears to be changing for the better, with the state (slowly) divorcing itself from direct appointments of SOE chiefs and board members. Similarly, interviewee C18 believed that the situation has improved because government employees are no longer assigned to chair SOEs' board meetings; the chair is now normally elected from board members by members themselves and not appointed by the Minister. While this change is likely to improve the quality of governance via addressing the independence issue, the selection of board members remain a live issue because political appointees in Zambia have failed historically to add value to the boards on which they serve, a view supported by the great majority of interviewees here. Moreover, despite the government engaging some highly qualified staff for senior positions in SOEs, interviewee C20 argued that the level of political interference reduces them to the role of political cadres.

Notwithstanding interviewees' caution in recognising improvements, interviewee C23 applauded the current tendency for government to push for 'better' ways of running SOEs by ensuring that policies are tailored towards addressing corporate governance issues. Interviewee C11 provided an example of this:

> "The government is also doing something to try and strengthen corporate governance in the public sector; for example, a Finance Act was passed in 2004 which requires the setting up of boards and audit committees in all government spending agencies and SOEs. The government's initiative is being driven by the NEPAD framework"

The establishment of a governance secretariat, acceding to the APRM and consequential Governance Country Self-Assessment Report[159]; provide other manifestations of a government that is, slowly, beginning to bow down to the overwhelming demands for improved corporate governance in Zambia, particularly in the public sector. However, interviewee C11 maintained that while several government departments and SOEs have taken steps to enhance the enabling environment for corporate governance, negative political intervention and significant corporate governance frailty continue to emerge, creating a mismatch between practice and reality.

7.2.4 Corporate Governance – the Private Sector Perspective

From a private sector perspective, there are two major categories of organisations of direct relevance to the corporate governance debate in Zambia: companies quoted or listed on the LuSE and those that are not. The category of companies falling outside the LuSE can be divided further into Small and Medium Enterprises (SMEs) and companies listed outside Zambia. Stock exchanges around the world are increasingly becoming promoters and sources of corporate governance-related regulations (Berglof and Thadden, 1999; LuSE, 2008; Mallin, 2009; Solomon, 2010). In this context, the CEO of the LuSE (interviewee C05 in this study) viewed the establishment of the exchange as a means of promoting sound

[159]See Chapter Four for details

corporate governance practices through compliance with listing rules, especially given extant legal and regulatory frameworks in Zambia that contain no specific legislature dealing with corporate governance issues. As noted in Chapter Four, the need to improve corporate governance in the Zambia private sector has been significantly reinforced by the development of three corporate governance guidelines conceptualised as the basis for substantive improvements. Despite being highly influenced by international codes, interviewee C12 contended that the launch of the codes is well-intentioned, and most of the interviewees did indeed believe that the codes are relevant and that a start has been made. In this context, C08 stated that: "while we can do much more, for now at least we have something to start with and somewhere to start from".

Outside the LuSE set-up, there are two other corporate governance precepts in Zambia: the Bank of Zambia (BOZ) corporate governance guidelines (for the financial sector) and the Institute of Directors of Zambia (IODZ) guidelines for SMEs[160]. However, interviewee C05, a representative of the LuSE, noted that the SMEs' guideline is unique in the sense that it is not enforceable and is more of an awareness document than a governance compliance code. Most interviewees believed that companies outwith the two codes' scope, are not covered by any corporate governance guidelines and, like the public sector, their governance mechanisms are regulated entirely by the Companies Act and other commercial laws[161]. As for foreign companies not listed on the LuSE, interviewees C09 and C10 believed that they are strongly influenced by their parent organisations based outside Zambia here; C10 argued that: "when they come to Zambia, they come with fairly well-established corporate governance structures because they have been doing it out there". In contrast, interviewee C08, a parastatal executive, remarked that companies based in countries where corporate

[160]Details regarding the two sets of guidelines were provided in Chapter Four.

[161]Commercial laws including the Banking and Financial Services Act and the Securities Act; Chapter Four contains further details.

governance is perceived to be weak lack commitment to the governance philosophy. Interviewee C08 cited the example of Chinese companies as a case where very little appreciation for corporate governance occurs when investing in Zambia; he pointed to very few Chinese companies operating in Zambia even having boards in this context. More generally, interviewees C05, C08 and C18 noted that while extensive research has taken place in the field of political governance in Zambia, very little has been done in the area of corporate governance - hence very little progress has been recorded. Despite this lack of attention, they maintained that the last 10 years has seen remarkable corporate governance improvements in the private sector.

7.3 Defining Corporate Governance

As discussed in Chapter Three, the term corporate governance has still not acquired a universally-accepted definition; in practice, the most widely-used definition remains the one espoused by the Cadbury Committee Report of 1992, that is: “the system by which companies are directed and controlled”. Since 1992, numerous definitions have been put forward, but no single form of words has yet been assented to ubiquitously. However, whatever the definition, the core elements of accountability, transparency, disclosure and fairness undisputedly underpin the broad corporate governance framework (Oman, 2003; Sternberg, 2004; Solomon, 2010). In this context, the first question in this part of the interviews specifically asked interviewees to define and explain the term ‘corporate governance’. Responses to this question, designed to tease out the interviewees’ understanding of the concept of corporate governance, suggested that all had at least a basic understanding. Consistent with the literature on corporate governance elsewhere, various definitions were given ranging from “an anti-theft mechanism” to “a mechanism for the well-being of society”. On a different governance continuum, interviewees’ definitions ranged from ‘shareholder centric’ to ‘social responsibility and stakeholder accountability’.

The specific issues that came out most prominently were stakeholder participation, transparency, accountability, checks and balances, disclosure, fairness, social responsibility, corruption, human rights and environmental concerns and the creation of wealth for all.

More than 75% of interviewees[162] defined corporate governance as "the system by which companies are directed and controlled"[163], consistent with the Cadbury (1992) definition and earlier empirical evidence in Wanyama (2006) and Bondamakara (2010) for Uganda and Zimbabwe respectively. This is the definition adopted by the King I Committee on Corporate Governance (1994) on which the extant Zambian codes draw extensively. While this fits with prior African studies, it was expected that Africans would side-line it on the basis of it being narrowly-focused and liable to direct attention at the principal-agent dichotomy (Sheikh and Rees, 1995; Solomon, 2010) thereby ignoring the expansive community a characteristic most valued by Africans (Jackson, 2004). However this outcome in supporting prior African studies points to the supremacy of Western terminology and conceptualisation in the corporate governance debate.

Reciting the Cadbury definition, interviewees C18 and C23 argued that: "There is no need to reinvent the wheel". While this characterisation acknowledges the existence and importance of different stakeholder groups, the focus is more on the relationship between the (distant) capital owners and the managers. Despite the majority of the interviewees initially reciting a Cadbury-style description, further probing revealed that several of them had issues with corporate governance mechanisms that only address the relationship between shareholders and their agents. In this context, many of the interviewees[164] argued that in Zambia - a country where the majority of companies are family-controlled SMEs and where dispersed

[162]Interviewees C01, C03, C04, C05, C06, C09, C10, C11, C12, C13, C14, C18, C20, C21, C22, C23 and C24.
[163]The Cadbury definition "the system by which organisations are directed and controlled" has also been adopted by the Africa Peer Review Mechanism (APRM) Zambia Country Self-Assessment Report (2010)
[164]Interviewees C01, C03, C04, C10, C12, C13, C14, C18, C21 and C23.

ownership is uncommon - any corporate governance mechanisms should go beyond the 'conventional' shareholder-centric perspective to encompass wider stakeholder inclusivity.

Most of the interviewees appeared to view the conventional definition as a starting point, while at the same time arguing that in a Zambian context the concept needs to be fleshed out to capture the reality in a meaningful way. In particular, the interviews revealed a perception of corporate governance as a concept that extends beyond corporations and their existence, to all stakeholders who interact with the firm. This view is consistent with the extant literature on corporate governance in Africa (e.g. Wanyama et al., 2009) and other developing nations outside the continent. Here, C23 claimed that:

> "Corporate governance goes beyond corporate affiliation to include government, trade unions, teachers' unions, local government, churches and any other organisation or institution that has resources at its disposal and has individuals or groups of individuals who decide how to apply these resources on behalf of others for the betterment of that particular organisation or institution and stakeholders"

Consistent with this line of argument, interviewees C04, C18, C21 and C23 added that corporate governance as an inclusivity concept should have as its goal improving the standard of living of the people of Zambia and the economy of the country at large. Moreover, corporate social responsibility, accountability, transparency, disclosure, stakeholder participation, institutional capacity and corruption featured consistently as some of the issues that interviewees saw as being critical to any future corporate governance framework ordained for Zambia.

Zambia's apparent desire for broadened corporate governance and accountability appears not to be reflected in the nation's extant corporate governance codes. For example, the BoZ corporate governance code defines corporate governance as "the process and structure used to direct and manage the business and affairs of an institution with the objective of ensuring its safety and soundness and enhancing shareholder value". Equally, the IODZ - whose code is directed at the SMEs - defines corporate governance as:

> "the process by which company objectives are established, achieved and monitored… (it is) concerned with the relationships and responsibilities between the board, management, shareholders and other relevant stakeholders within a legal and regulatory framework … (it) ensures accountability of the board of directors to shareholders and management to the board of directors" (p. 1)[165].

Taking a broad viewpoint, interviewee C15 advanced the following definition:

> "Corporate governance is concerned with the ethical principles, values and practices that facilitate holding the balance between economic and social goals and between individual and communal goals. The aim is to align as nearly as possible the interests of individuals, corporations and society within a framework of sound governance and common good"

This definition is based on Cadbury 2001's re-modelled approach to corporate governance. While the interviewees appeared keen to engage with questions relating to the governance notion, it was clear that they experienced difficulties in generating a precise definition and, hence, resorted to recitation of phraseologies already in the public domain. Nonetheless, several interviewees took the view that corporate governance should facilitate an environment that fosters an effective regulatory framework, one that addresses economic and social responsibility, as well as environmental sustainability and accountability to different stakeholder groups in a fair and just manner. Similarly, interviewees C01 and C05 expressed the need for all stakeholders to show interest in governance issues because decisions made at corporate and government levels will impact on all citizens as stakeholders.

7.4 International Influence on Zambian Corporate Governance Codes

As outlined earlier in this chapter, Zambia has three sets of current corporate governance guidelines: the BOZ code, which is unique to the supervision of the banks and the financial

[165]The preceding definition is also similar to that actualised by the LuSE.

sector; the LuSE code, targeted at all companies quoted or listed on the LuSE; and the IODZ code which focuses on SMEs. Fifty-four per cent of the interviewees[166] noted that the three codes draw extensively on the multifarious international corporate governance standards extant around the world, in particular the King Report of South Africa[167], which most interviewees believed to have domestic relevance given the extent of business ties between Zambia and South Africa. However, they also applauded the OECD principles, supporting its claims of universal applicability. For instance, C09 stated that:

> "We did not start from ground zero, we had to start from somewhere, and we had the UK code, the South African King Report, the New Zealand and the OECD guidelines. Much has been drawn from these codes, in particular the King Report. There is no way we can ignore what is happening in the international arena on corporate governance. The King Report III is particularly relevant."

More generally, all 24 interviewees acknowledged that though the three Zambian codes were drafted by domestic institutions, they essentially represent abstractions from major codes in the international arena. This development was not perceived to be particularly welcome, although interviewees C09 and C23 contended that the growing interdependence of companies and economies around the globe calls for more uniformity in corporate governance standards. Interviewees C01 and C05 suggested that such moves represented a clear trend towards drafting codes that are hybrids of more than one existing set of rules. Interviewees[168] in support of a hybridised approach maintained that in a global village corporate governance does not belong to any one country or group of countries and, as such, there is nothing 'Zambian' when it comes to business. They further argued that because of globalisation, the idea of national standards makes little sense; the tendency for the South African King Report to be viewed as a Pan- African code is consistent with this.

[166]Interviewees C03, C05, C08, C09, C11, C12, C14, C16, C17, C18, C21, C23 and C24.

[167]The influences of the King Report seem to be permeating to other countries through the links that smaller African stock exchanges are developing with the Johannesburg Stock Exchange (JSE). This has been suggested as being an important link for good corporate governance (UNECA, 2005).

[168]Interviewees C07, C13, C14, C18, C23 and C24.

Interviewees' articulations here appeared to be based on an appreciation that within the context of globalisation, the national approach to corporate governance (defined within local circumstances in terms of laws and regulation) are increasingly being pressurised by global forces; the importing of corporate governance notions, was seen by most as necessary for the greater good and well-being of the country.

7.4.1 Counter Views to Un-remodelled Imported Principles

Notwithstanding the cautious acceptance of supra-national governance rules discussed in the previous section, the perceived strong influence of international standards on Zambian codes raised some specific concerns as to whether rules reflecting Western norms are relevant in the Zambian environment, where cultural and historic underpinnings differ in substantive ways from those in the West. Interviewees opposed to this approach suggested that corporate governance standards designed for the Zambian environment should be modified to accommodate the Zambian way of living and doing business. In particular, almost half of the interviewees[169] argued that while they do not object to the adoption of foreign codes, there is a need for originality in the drafting process to reflect the country's cultural particularity and the level of economic development in the local codes which must in turn feed into the international decorum. For example, one of the academics stated that:

> "While the principles remain the same, they must be made relevant to the Zambian environment. The US and the UK are not at the same level with Zambia in many aspects therefore lifting the standards from such countries and applying them in our country in their original form is not the greatest idea" (C 24).

Equally, interviewee C14, a senior economist in the banking sector contended that:

> "Most of the codes in Africa, including the King Report, are strongly influenced by international codes; foreign structures will continue to influence things in Africa because of our historical backgrounds. But we should not throw away individual countries' specific circumstances in preference for codes from countries at different levels of economic development"

[169]Interviewees C03, C07, C09, C11, C12, C14, C16, C17, C18 and C24.

However, due to incongruity in economic levels and cultural mismatch, both C01 and C05 favoured a hybrid approach, one which harnesses best practice from local and international codes to bring about a balance appropriate for an environment that is dominated by transnational corporations. This way of thinking was consistent with the views expressed by C10 and C17, representing multinational companies operating in Zambia but listed on the London Stock Exchange (LSE). These interviewees argued that while their companies acknowledged their obligations (through their parent companies) to work within the LSE guidelines, they also comply with the local codes. Both interviewees claimed to have Zambian directors sitting on their local boards to, among other things, ensure that they raise issues that concern local environments in terms of cultural values and governance-related matters. It is common practice for subsidiary companies operating in Zambia to favour the governance practices adopted by their parent companies (see Chapter Four), but in terms of relevancy and adequacy, the overwhelming majority[170] of interviewees believed that the Zambian codes are both relevant and necessary[171].

7.5 Corporate Governance Compliance in Zambia

Interviewee C01, a senior academic and researcher, argued that formalised compliance can only take place in an environment where corporate governance guidelines have been established and recognised, and enforcement can be traced to equally recognisable regulatory bodies. In this regard, interviewees C01 and C12 contended that compliance motivation is influenced by, among other things, the level of regulatory enforcement and other corporate governance benefits. This section of the chapter therefore focuses on the issue of compliance with the three extant sets of guidelines in Zambia. One of the points to emerge from the discussions was concern that the publication of codes would have limited

[170] Interviewees C01, C02, C03, C07, C08, C09, C10, C12, C13, C14, C16, C17, C20, C22, C23 and C24.

[171] Although, interviewee C01 noted that the fluidity and dynamic nature of modern business makes the adequacy argument contentious.

impact without effective enforcement and compliance[172]. On this subject, interviewee C01 stated that:

> "Better corporate governance cannot be achieved without better robust regulation and enforcement mechanisms. So we need institutions to supervise and regulate corporate governance. Even where there are supervisory bodies a number of weaknesses have been detected because as a country we don't have the expertise to follow-up issues that relate to corporate governance because they are complicated so enforcement is minimal. In Zambia, the pressure for compliance is more strongly wielded by the civil society than by any other stakeholder group"

Most interviewees argued that the absence in Zambia of laws and regulatory bodies that are specific to corporate governance means that compliance is not guaranteed[173].

7.5.1 Compliance with the LuSE and BOZ Codes

The LuSE and BOZ codes define the standards of conduct and integrity with which relevant companies must comply. Interviewee C17 postulated that there is a reasonable likelihood of widespread compliance with the LuSE code because the process of listing itself calls for adherence to strong de facto governance process. Correspondingly, C5, an LuSE employee, contended that because some corporate governance awareness programmes designed for quoted companies have been set-up, compliance is now increasing. Interviewees C05, C07 and C10 all argued that compliance with LuSE rules is not likely to represent a major problem for listed firms as most of them are multinational in nature and have been adhering to similar requirements abroad. More generally, several interviewees appeared to suggest that multinational companies with reasonably strong corporate governance structures do not view compliance as a bone of contention because for them it is a norm. Correspondingly, C10, representing a multinational organisation declared that:

[172] A concern also observed in Uganda by Wanyama et al. (2009).

[173] However, interviewee C20, a member of parliament, pointed to the Companies Act and other commercial laws such as the Investment Act, Securities Act and Environmental Act as having some use in mitigating against corporate governance-related concerns. On the flip side, C01 and C08 suggested that the general nature of the Companies Act and other commercial laws compromises their applicability to specific governance issues.

> "We comply fully; in fact the company has a compliance officer whose role is to ensure that we comply with regulation including corporate governance guidelines. The position of compliance officer is a senior position because we believe it is a very serious role and he reports to the Managing Director. As a company we believe that compliance is like the brakes of a car, they need to be serviced so that they are in tiptop condition all the time. We are listed in the UK but we also comply with local (Zambian) guidelines as well"

As regards the BOZ code, C07, C08 and C12 all argued that compliance is likely to be pervasive on account of the BOZ being the Central Bank of Zambia and therefore commanding a critical supervisory and regulatory body for companies in the financial sector[174]. Given these perceptions, there was a well-grounded assumption that the burden of monitoring and enforcing compliance with the two codes rests with their sponsors, and there seems to be relatively few contentious issues.

7.5.2 Organisations outwith the LuSE and BOZ Regimes

Zambia has a large number of companies that fall outside the LuSE and the BOZ compliance catchment boundaries primarily SMEs, SOEs and some foreign companies not listed on the local market. According to interviewee C18, the President of the IODZ, SMEs form the majority in terms of numbers, hold a critical mass of wealth and are critical for Zambia's future. One of the distinguishing characteristics of this category, according to both C18 and C20, is that these companies are too small to be listed on the LuSE, although C14 and C20 put forward a rationale whereby the standards are simply too demanding for the family-held small companies dominant in Zambia. However, it was suggested that the numbers and their significance make the SMEs a special category that demands governance attention if their contribution to the national economy is to be meaningful. In this context C03, an IODZ member, believed that the development of a corporate governance guideline specifically tailored for such organisations is required. In addition, interviewee CO3 argued

[174] As with the LuSE, to get a banking licence one has to comply with the sectoral corporate governance requirements.

that corporate governance comes with added costs; while large and multinational companies have the financial muscle to absorb these, C07 and C10 argued that in practice SMEs have to make a (difficult) choice between the costs and benefits of compliance.

In this vein, C05 and C23 maintained that concerns have been raised regarding whether, given their size, SMEs should always have a board. Equally, family-held enterprises were perceived as being reluctant to give up some control as they believe that no-one other than them (the owners) can do better. Interestingly the issues raised by the interviewees here are in line with the early literature on the development of what is now termed 'corporate governance', including the work of Berle and Means (1932) on ownership and control separation. As noted earlier, in recognition of the role that SMEs play in Zambia, the IODZ developed a code specifically for the sector but a mix of views emerged from the interviews here regarding compliance with the IODZ guidelines. Interviewee C23 (a consultant who participated in drafting the IODZ code) acknowledged the mixed picture, holding the following two factors responsible for the situation:

a) The IODZ is not a statutory body like other professional organisations in the country such as the Zambia Institute of Chartered Accountants (ZICA) or the Law Association of Zambia (LAZ) therefore membership is voluntary (C23).

b) In relation to the LuSE and the BOZ codes, the IODZ guidelines were drafted as a 'sensitisation' document rather than as a compliance code, i.e. an awareness document to re-orient peoples' approach to doing business in a globalised economy (C23).

This situation means that the code is effectively unenforceable because both the guidelines and IODZ membership itself is voluntary, on an *ex-gratia* basis. Here, C20 added that:

> "The weakness with the IODZ corporate governance code is that the IODZ itself is run like an NGO such that their decisions are not binding because even membership is voluntary, people join when they want and leave as and when they want so in most cases they are not taken seriously".

For most interviewees, the IODZ rules appeared to represent no more than a sensitisation guide that intends to educate Zambian SMEs on what corporate governance is; the code was viewed by both the sponsors and the target sector as a training manual and not a compliance code. Not surprisingly, compliance in this category was viewed as "minimal".

7.5.3 "Comply or Explain" Versus "Comply or Else"

The "Comply or explain" approach is a corporate governance regulatory methodology whereby guidelines are set out which companies may either comply with or give reasons for any areas of non-compliance (Cadbury Report (1992, Section 3.7). On the other hand the "comply or else" approach (also known as "comply only") simply means that failure to act in accordance with the law exposes the company to judicial punishment; in short, compliance is mandatory[175]. The "comply or explain" approach espoused by the UK codes[176] has influenced those in many other parts of the world including countries with advanced and developing economies. In the present study, interviewees took three different standpoints on the matter: those in favour of: "comply or explain"[177]; "comply or else"[178]; and an approach whereby the core principles of corporate governance should be made mandatory[179] while other aspects remain voluntary[180]. However, the majority consensus seemed to be supportive of a hybrid approach underpinned by both mandatory and voluntary regulation, ensuring that rhetorical behaviour is subdued.

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[175]The Sarbanes-Oxley Act of 2002 is a mandatory governance code regulating financial practice and corporate governance in the US. As far as compliance is concerned, all organisations, large and small, must comply. Criminal and civil penalties for noncompliance in the Sarbanes Oxley Act are prescribed.

[176]UK codes dating back to Cadbury are anchored on the assumption that companies should comply with the rules or explain why they do not. In this way the code-framers avoid, or perhaps enable, a one-size-fits-all approach. Statements of the extent of conformance with the code and the reasons for any non-conformance are given in a corporate governance statement which is contained within the annual report.

[177]Interviewees C09, C10, C23 and C24.

[178]Interviewees C02, C06 and C19.

[179]Interviewees C01, C02, C05, C07, C08, C11, C13, C14, C15, C18, C20, C21 and C22.

[180]Four interviewees remained mute on this issue.

Interviewee C01, a supporter of a hybrid approach, challenged a mechanism that gives a company an option to comply or not. He argued that in Zambia, a country that does not have a reputation for strong corporate governance practices, it does not make sense to embrace "comply or explain" in totality. He contended further that while 'enlightened' dissatisfied shareholders in developed countries have other options at their disposal in Zambia, shareholders may not have the courage (or propensity) to vote intelligibly to mitigate bad executive behaviour. For C02, the critical issue that needs serious consideration is that the "comply or explain" principle lacks clarity as to who the inclusivity model proposed by most Zambians should be aimed at - apart from the shareholders who have a *de-jure* contract.

In this context, C01, C02 and C11 all gave the example of South Africa, where the drafting of the King III Report was conceived as partly reflecting a desire to incorporate some core corporate governance principles into the South African Companies Act. This development was thought by some to overcome weaknesses detected in the enforcement of standards of a non-binding legal nature. In this context, interviewee C01 noted that:

> "In South Africa, disclosure is now mandatory and failure to comply will attract penalties because it is now law; equally, in the UK disclosure is mandatory. The "comply or explain" view means that you leave it up to the market to decide the appropriateness of these principles. We can't leave it up to the market to decide because regulation and supervision in this country is very weak. However, for transnational companies listed in countries where shareholder activism is strong, this can perhaps work".

Interviewee C02, a strong supporter of "comply or else", argued thus:

> "All the codes in this country are voluntary therefore not relevant to this country because they do not provide remedies to the communities affected. Anglo American Corporation breached the OECD guidelines in a number of areas and complaints were made using the complaints mechanism under OECD through the UK contact point, but all we received was a wishy-washy response. Anglo argued that they cannot be punished on the basis of a voluntary code" (C02).

This interviewee contended further that the codes will only be meaningful in Zambia if they are connected to the laws of the land, become binding and enforceable. Similarly, C24 believed that the lack of enforcement mechanisms coupled with the "comply or explain" principle has resulted in companies focussing on legal exposures rather than (voluntary) governance improvements. These and similar concerns gave rise to several interviewees calling for the drafting of corporate governance principles alongside the Companies Act and other commercial laws with a view to strengthening practical enforcement mechanisms.

7.6 Drivers of Corporate Governance in Zambia

A number of factors have driven corporate governance developments around the world, with the most common being difficulties in the principal-agent relationship, globalisation and high profile company malfunctions (particularly, but not exclusively, in developed countries). In Zambia however, the most common catalysts for change identified by the interviewees included: economic reinforcement; external influence/donor pressure; economic liberalisation and privatisation; company under-performance (both local and international); and corruption and globalisation. In the view of many Zambians, the above factors have strongly influenced levels of awareness of the corporate governance notion. Similarly, the establishment of the IODZ as a lead spearheading group was thought to have marked a milestone in the development of effective corporate governance reforms in Zambia. The elements perceived by the interviewees are now considered in more detail.

7.6.1 Economic Reinforcement as a Driver of Corporate Governance in Zambia

As acknowledged in previous chapters and in earlier sections of this, the NEPAD has identified corporate governance as one of the key requirements for meaningful levels of development in Africa. In this context, development is now explicitly viewed as the main rationale for pursuing corporate governance change in Zambia and other parts of Africa. This point was amplified in a statement by C12:

> "In Zambia we view good corporate governance as a key driver of economic growth and development because it is about accountability, transparency, disclosure and fairness, all of which we have been struggling to achieve as a country. Because of these problems, we have failed to develop our country despite abundant natural resources. We experience high poverty levels in the midst of plenty as a result of bad governance".

Although there seemed to be general agreement amongst interviewees that corporate governance reflects a business-driven paradigm, C01 maintained that in the Zambian situation, attention must also be paid to the application of corporate governance within the framework of a broader stakeholder notion, including the national economy and the general well-being of the country.

7.6.2 External Influence /Donor Pressure

As noted in Chapter Four, Zambia is a major donor aid destination (Burnside and Dollar, 1997). The majority of the interviewees believed that foreign assistance targeted at development can play a significant role in the country's economic transformation and improve the lives of Zambians through access to quality education, clean water/sanitation, quality healthcare and robust infrastructure. However, interviewee C19 believed that these type of goals will only be achieved under a system of 'good' governance and accountability, which is precisely what the majority of interviewees argued has been lacking in the country. In this regard, interviewee C01 argued that the inclusion by major donor groups of governance conditionality in the development assistance eligibility criteria is mainly designed to enhance accountability and corporate governance. This architecture represents a common basis that most development assistance financiers consider essential for the development of good governance practice, particularly in developing nations where accountability institutions are conventionally weak (Akokpari, 2004; Neumayer, 2004; Hout, 2007). Interviewee C18 drew attention to one case in point by stating that:

> "After the scandals in the Ministry of Health, the government of Zambia and the donor community have entered into a governance plan. One condition of this plan is that the government refund the misappropriated funds in the Ministry of Health. On the other hand, Sweden and the Netherlands have also attached conditions of improved financial governance before they can resume funding the Ministry again"

While the individuals behind the scandal have not been sanctioned, both C07 and C19 pointed out that reimbursements for the misappropriated funds will ultimately have to be paid for by Zambian tax payers. According to interviewees C06, C13 and C18, these events resulted in some donors cutting development aid sharply, leading to consequential losses of huge foreign assistance. Several interviewees argued further that the goings-on exacerbated the donors' push for good governance and accountability.

In this context, interviewee C12 stressed that while there is a notion that donor assistance normally comes with 'strings' attached, the government never fully explains what these strings are and it is only now that the Zambian people are beginning to understand that, these 'strings' are actually governance and accountability-related. For interviewee C12, it is these so called 'strings' that cause an inherent tension between the government and donors[181]. Interviewees C06, C09, C13, C17 and C22 all believed that, as a complement to private investment, development assistance works well in environments supported by effective governance practices - however, such efforts are (wrongly) often repelled by the governing elite. This tendency perhaps suggests a reason for why development aid has so far failed to leave a significant mark on Zambia and most other African countries (Burnside and Dollar, 1997; Andersson et al., 2000).

[181]Gruzd (2008) found this to be a dominant characteristic of most African states.

7.6.3 Liberalisation of the Economy and Privatisation

Over the last decade, governments around the world have been withdrawing from active business and assuming a 'facilitator' role as a way of strengthening governance and promoting private sector-driven economies (Buck, 2003; Jailos, 2010). The pressures are exacerbated by the increasing profile of corporate governance, the challenges of modern business and globalisation (Crane and Matten, 2007). In this regard, interviewees C07 and C23 cited reforms and subsequent shifts in the management of the Zambia economy[182] which have focused on removing government from the governance of business. A key component of these economic reforms was the massive privatisation of SOEs. One of the academic interviewees, C01, believed that under the state-control model, the stakeholder notion was pursued to its extreme, leading to over-extraction of resources from SOEs in order to provide public goods. This interviewee also believed that decision-making in Zambian SOEs was in many respects at a crossroad and the balancing of policies between the government's social agenda and economical sustainability was becoming elusive. Although the benefits of government-control were shared between economic and social goals, it is this over-extraction without re-investment which C01 blamed for the collapse of a number of state-owned companies. This type of problem is one of the reasons cited by most interviewees for the privatisation of SOEs witnessed in Zambia in recent years. Here interviewee C12 stated that:

> "Under government control SOEs were only accountable to the government and the party in power and not the institutions and the public at large. Privatisation has actually improved governance because people now have a personal touch to these companies"

In the same manner, C20 pointed out that recent liberalisation measures such as the removal of controls in the financial sector, the reduction in tariff barriers and the encouragement of foreign investment were all undertaken on the assumption that greater competition would

[182]As noted in Chapter Four, for many years government had controlled over 80% of Zambian industry.

exacerbate pressure upon companies operating in Zambia and compel them to seek refuge in ‘acceptable’ corporate governance practices.

Interviewees C01 and C17 both contended that, given the foregoing circumstances, most companies in the Zambian private sector stand in need of corporate conduct that is forged on principles of sound corporate governance in their efforts not only to achieve greater levels of performance, but also to contribute positively to the economy of the country. Although Zambia has seen dramatic changes in the management of the economy, the laws and the regulatory governance frameworks have not been developed in line with the move to liberalise the economic environment. Interviewee C01 argued that the privatisations should act as a catalyst for strengthening of the principles of corporate governance, principles assumed to be very limited under state control. Similarly, interviewee C10 maintained that the private investment which comes with privatisation often focuses on strong corporate governance in terms of assurances and security.

7.6.4 Company Failures (Local and International)

The interviewees believed that failures of high profile companies abroad as well as domestic experiences[183] have had a compelling influence on the corporate governance agenda in Zambia. Most took the view that Zambians now realise that in the absence of a robust regulatory framework governance mistakes have been inevitable. In this context, C05 and C12 held these circumstances responsible for the collapse of companies in Zambia, particularly in the banking sector. These local events mirrored in developed nations and elsewhere, were believed by interviewee C12 to serve as major drivers of corporate governance in Zambia; he stated that:

> “As one of the pioneers of the BOZ corporate governance guidelines, the code was an afterthought of the systematic bank collapses that we experienced in the 1990s.

[183] See Chapter Four for details.

> The failures were about, among other things, failure to recover loans, creative accounting, unethical conduct both by people working in the banks and by banks themselves as corporate entities, management getting heft loans from their own banks, incompetent boards of directors just to mention a few. Now when you critically look at all these irregularities, they clearly show that corporate governance was missing, so we had to bring in a corporate governance code"

As noted in Chapter Four, the establishment of the BOZ corporate governance code was intended to address governance breakdowns which appeared to be at the centre of business failures, particularly in the banking sector. Interviewees C05 and C23 referred to the collapse of high profile companies in the US threatening the entire US economy, arguing that for Zambia - whose economy is anchored on a few companies - such failures could be catastrophic. In this context, interviewee C23 gave the following example:

> "The pullout from Konkola Copper Mines (KCM) by Anglo-American Corporation in 2002 sent economic shock waves across the country. So you can imagine this was not a failure per say but just a pull out and people will tell you what happened around the Copperbelt and the entire country. There was massive pressure on the Zambian economy as people were thinking of what was going to happen to Zambia without KCM"

Similar discernments were also advanced by interviewees C02, C03 and C18 who all pointed out that Zambia's experience of failures impacted negatively on the economy in terms of lost revenues through tax, job losses and other social implications. This recognition of the impact of company failures on many different stakeholders fits with the notion that companies do not exist for the sole benefit of the providers of capital[184]. This evidence is consistent with the earlier findings for Uganda reported by Wanyama (2006) which suggests that the broad stakeholder notion is seen as important across Africa more generally.

7.6.5 Corruption as a Driver of Corporate Governance Change in Zambia

Corresponding with the literature review in Chapter Four, many interviewees[185] believed that corruption remains alive in Zambia and has emerged as one of the major challenges

[184]More generally, Shkolnikov (2002) argues that 'Bad' or 'lacking' corporate governance does not only lead to corporate scandals, but has far reaching implications that go beyond the corporations.

[185]Interviewees C01, C02, C03, C04, C06, C07, C08, C13, C14, C15, C17, C20, C22, C23 and C24.

affecting corporate governance in the country. Interviewees C04 and C06 held gaps in the (de facto) weak legal framework directly responsible for escalating levels of the problem. Because of the extant inefficiencies and inconsistencies in attempts to challenge corruption in Zambia, C24 pointed to embedding appreciation for corporate governance as a practical way of improving matters. The inadequacies in the legal path, C24 explained, lies in the fact that both parties to corruption benefit with no incentive for any party to refrain from such behaviour. Interviewee C20 argued that the proposed shift from a legalistic approach to a corporate governance-focussed system, appears to be suggestive of a more modern, persuasive methodology, while C23 believed that this shift has the propensity to decentralise the 'fight' by allowing other stakeholders to participate and thereby complement governmental effort. The failures of the Zambian legal framework have encouraged people to look to the fresh approach inherent in 'good' corporate governance as a method of discouraging the vice. Interviewee C07 extended this argument by remarking that:

> "High levels of corruption are a sign of the absence of corporate governance therefore successful implementation of corporate governance is an effective way of fighting corruption. Abundant and articulate anti-corruption legal provisions do exist in this country but the problem has been with the complexity of corruption cases coupled with the weak legislative and regulatory framework. When you read the Auditor General's Report, you will be shocked that there are cases where public resources have gone into projects that do not exist, so where did the money go? And who changed the expenditure rules that you can pay someone before the job is done?"

Weaknesses in regulatory enforcement were also pointed to by interviewee C13, who stated that:

> "In this country we have had corrupt people becoming heroes, and we glorify them. This is an indication that we are not getting any better particularly in the public sector and government agencies. One weakness is that corruption cases are reported to the Anti- Corruption Commission (ACC) and that is where problems start. The ACC is not strong enough to handle certain cases especially those involving politicians. We have to strengthen institutions of corporate governance and accountability if we are to fight the scourge with vigour".

Interviewee C06 argued that the ACC fails in terms of enhancing accountability because the key laws on which the institution is anchored offer little in terms of promoting and strengthening governance and accountability. Interviewee C06 cited the specific example of the lack of an abuse of office clause from the ACC Act. Thus, the extant contingency does not seem to create an enabling legal and regulatory environment that empowers key stakeholders to tackle corruption without fear of victimisation. In this context, the majority of interviewees again suggested that corruption is in fact a driver for change in the sense that the calls for robust corporate governance mechanisms are seen as responses to the need for a long-term oriented approach to fighting corruption.

7.6.6 Globalisation as a Driver of Corporate Governance Change in Zambia

Globalisation has emerged as one of the most broadly debated subjects in recent years, chiefly because of its implications for political and economic governance (Haque, 2002). According to Hague, divergent perceptions regarding the meaning, intensity, dimension, extent, cause, and consequence of globalisation exist. Undoubtedly, the emergence of globalisation has witnessed shifts in political economy debates where the role of the state in terms of industrial interventions has been minimised or replaced by the market. The shift in the wake of globalisation, especially amongst developing economies, is evidenced in the privatisation, deregulation and liberalisation intended to transfer socio-economic activities to the private sector (Haque, 2001). The context of globalisation has led to political and economic governance challenges at both national and global levels (Hague, 2002). Zambia's integration into this new environment has meant that the country has had to submit to international standards. Here, interviewee C01 portrayed concern with corporate governance as one of the most important impacts of the changing landscape. In particular, he argued that the governance dimension has come under the microscope because of trade liberalisation and increased international competition for capital, stating that:

> "Globalisation has brought about competition for international capital and this is where the quality of governance plays a role because the owners of capital now have got the entire world to shop around. Zambia has undergone reforms such as privatisation and liberalisation as part of the new economic policy to attract foreign investment. Under globalisation, countries that offer the best in terms of protecting investors stand a better chance of luring such investors. In this sense, globalisation has become a key driver of corporate governance".

Interviewee C01 further contended that in this instance corporate governance represents a useful framework within which new forms of alliances between governments, corporations and other stakeholders can develop. Globalisation has also influenced the debates surrounding the issue of domesticated corporate governance guidelines versus international codes discussed earlier. In support of a global approach, C10 advocated that Zambia - being an active player in the international economy - demands standards that are similar to the rest of the world because the *ex-ante* barriers to the movement of capital across borders have collapsed, posing new challenges that require a global approach. This interviewee also argued that globalisation has the potential to narrow the gap as regards cultural differences, as transactions are more likely to be based on international standards.

More generally, interviewees C01, C07, C10, C11 and C13 all claimed that Zambia cannot compete favourably with other countries in the global market if domestic corporate governance practices are not in conformity with international standards. According to C14, this argument represents straight-forward support for Zambia having extant corporate governance guidelines that are in line with international norms; he claimed that:

> "Globalisation has witnessed the proliferation of multinational corporations. Some of the principles and assumptions under the new economic order dictate the agenda of removing governments in business and instead promoting private sector participation. Such arrangements pose a lot of challenges in terms of setting a balance between domesticated and international corporate governance guidelines."

In summary, 50% of the interviewees strongly accredited globalisation with being one of the key drivers of corporate governance in Zambia and fully endorse the notion that improved corporate governance can contribute to Zambia's ability to reap its full benefits.

7.7 Conclusion

In Zambia, as in many African countries, corporate governance awareness levels are still very low. The natural corollary to this circumstance is the existence of governance institutions that lack the capacity to foster the related values of accountability, transparency, disclosure and fairness. Although contemporary literature on corporate governance in Zambia and elsewhere in Africa acknowledges the novelty of the concept on the continent, recent events have demonstrated that corporate governance reforms in Zambia have been slowly shifting from the merely rhetorical to the practical. There appeared to be an overwhelming consensus amongst the interviewees that corporate governance standards should be embedded in all organisational structures at all levels in order for people to fully appreciate its benefits. Extant governance institutions in the country have been shown here to be perceived as having little practical impact, and it is therefore apparent that the country needs to build institutional capacity with the express aim of pushing both corporations and the government into accepting and complying with the rules and their spirit. The evidence presented here suggests that some of the major forces driving corporate governance in Zambia include: economic reinforcement, external influence or donor pressure, liberalisation of the economy and privatisation, company underperformance, corruption and globalisation. However, in the absence of laws and regulations that are specific to corporate governance - coupled with a frail legal system which mediates most corporate governance contested issues - the need to review the Companies Act in line with modern corporate governance should be prioritised. Perhaps most fundamentally, however, the evidence presented in this chapter suggests that there is an underlying need for clearer understanding of the benefits that can stem from 'good' corporate governance practices, if stakeholders are to appreciate the notion's potentiality. Notwithstanding the multi-faceted nature of impairments on corporate governance in Zambia, the interview findings are testament to the fact that serious attempts have been made to improve the de facto situation in the country. The corporate governance drivers as proposed by interviewees provide insights into the association between corporate governance and the country's economic development. The majority of interviewees have pointed out that a country's reputation for strong corporate governance practices creates investor confidence and therefore acts as a powerful attractant for capital flows - corporate governance practices should therefore be salutary for any country's economy. Having presented the findings on the corporate governance profile in Zambia, the analysis of the interviews continues in the next chapter with the assessment of perceptions concerning the significance and implications of corporate governance for Zambia's development in a broad accountability framework.

CHAPTER EIGHT

INTERVIEWS:

CORPORATE GOVERNANCE AND DEVELOPMENT IN ZAMBIA

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8.1 Introduction

Corporate governance's implications, not only for the financial health of corporations but also for broader economic development have been explored across nations and via a range of methods in recent years (Solomon, 2010). In this regard, prior studies suggest that there is a strong relationship between corporate governance and a country's level of economic development (Berglof and Thadden, 1999; Wu, 2005; Wanyama, 2006; Tsamenyi and Uddin, 2008; Siddiqui, 2010). The previous chapter of this thesis focused on interview findings regarding perceptions of the corporate governance notion in Zambia. The present chapter reports on the findings from the same semi-structured interviews, but focuses on the relationship between corporate governance and development in the Zambian context. The conceptualisation of the issues discussed here is heavily influenced by Africa's home-grown development framework, in particular the New Partnership for Africa's Development (NEPAD)'s declaration that corporate governance has recently emerged as one of the necessary conditions for Africa's development. This chapter attempts to capture the participants' views about this notion in the Zambian context. The structure of the rest of the chapter is as follows: Section 8.2 discusses the significance of corporate governance to Zambia's development; Section 8.3 focuses on corporate governance and extant development status; Section 8.4 explores the notion of "properly run firms" as the drivers of wealth; Section 8.5 looks at corruption from corporate governance and development perspectives; Section 8.6 then investigates accountability and development while the focal point for Section 8.7 is institutional capacity. Section 8.8 puts into the spotlight Chinese investment and corporate governance in Zambia while Section 8.9 attempts to address corporate governance benefits and challenges in Zambia.

8.2 The Significance of Corporate Governance to Zambia's Development

Several interviewees[186] maintained that in Zambia, like in many other developing nations, the quality of corporate governance is critical to development on the basis of its potential to create an enabling environment of greater accountability, enhanced transparency and improved disclosure, all of which are essential for effective resource allocation (both in the private and public sectors), leading in turn to better economic management and economic development. Here interviewee C22, a research consultant, referred to corporate governance as one of the many factors that must be seriously considered if Zambia is to meaningfully address the development issues that continue to elude the country despite its relative political stability. Interviewee C23, a governance consultant, went further, arguing that:

> "I am one of those who believe and recognise that corporate governance is an important tool for development because even if a country has good political governance, at the end of the day the wealth of the nation which is used in the economic development has to be applied in a transparent and accountable manner and satisfy the majority of the citizens in the country and this is where corporate governance squarely fits into the development equation".

Interviewee C04 held a view that:

> "Corporate governance matters for Zambia's development. There must be some level of governance for meaningful development to take place because there has to be rules and a way of regulating and enforcing those rules and also a way of measuring whether those rules are being followed. As Zambians we keep on asking for good governance because we know there is a strong link".

Interviewees C08, C10 and C14 viewed corporate governance as a mechanism that provides a guarantee whereby people charged with the responsibility to manage the economy are accountable and transparent with regard to the manner in which resources are allocated

[186] Interviewees C01, C02, C03, C06, C07, C08, C10, C13, C14, C15 and C16.

across the nation. Interviewee C05, a LuSE executive director, pointed out that even from a social-economic viewpoint the absence of strong corporate governance practices has the propensity to cause harm to the lives of many Zambians including investors, savers, retirees, employees and customers. It was clear that most interviewees believed that improved corporate governance could contribute greatly to achieving economic prosperity for Zambia.

At this stage, interviewees were probed on what they perceived to be a suitable definition of development in the Zambian context. Several interviewees[187] deviated from the conventional definition of development and instead proposed one which goes beyond statistical aggregates to emphasise uplifting the living standards of Zambian citizens. Interviewee C09 argued that the economy must be managed in the "interest of the people"; development must therefore be conceptualised in terms of its propensity to impact positively on the well-being of Zambians. Correspondingly, interviewees C06 and C22 held a view that while economic development indicators such as GNP and GDP may be necessary, they are not sufficiently robust to measure development because they have a tendency to conceal wealth distribution inequalities (i.e. the widening gap between the rich and the poor) especially in developing countries like Zambia and, consequently, obscure the primary objective of development. To cement the preceding argument, interviewees C09 and C22 contended that despite current growth in GDP there has been no corresponding change in the economic and social well-being of the people. The argument advanced here suggests that development as defined by GNP/GDP is of limited meaning in the Zambian context because the data itself fail to reflect day-to-day realities. Meaningful improvement in the living standards of the Zambian people was further explained by interviewees C09, C21 and C22 to mean advancement in the quality of education, health care services, as well as access to quality food, water, shelter, better working conditions and other social related indicators.

[187]Interviewees C01, C03, C04, C05, C06, C07, C09, C10, C13, C14, C16, C21and C22.

8.3 Corporate Governance and Extant Development Status

The concept of corporate governance and its implications for economic advancement is relevant for both developing and developed nations (Wu, 2005). Some scholars posit that corporate governance is at least as important in developing nations as it is in developed economies (Shkolnikov, 2002; Oman, 2003). While research in the area has concentrated on developed economies, Lin (2000) posits that the de facto problems of corporate governance are more serious in developing nations. Interviewee C01, an academic with extensive research experience believed that corporate governance, while being a worldwide phenomenon, matters most in practice for countries such as Zambia that are in transition. This interviewee's opinion is consistent with the literature on the implications of corporate governance for developing nations. While Berglof and Thadden (1999) contend that the essentiality and significance of corporate governance is to a large extent dependent on a nation's level of development, Oman (2003) argues that its importance is likely to be greatly appreciated in developing nations; this view is also consistent with prior literature on Africa regarding corporate governance and development (Babic, 2003; Oman, 2003; McGee, 2008; Siddiqui, 2010). Interviewee C01 argued that through the enhanced accountability that is 'packaged' with it, corporate governance provides safeguards from (scarce) resource appropriation and misallocation by egocentric governing elites as is the case in most African countries. Most interview participants believed that if the country is to attain meaningful development, every resource needs to be accounted for and applied faithfully, especially as the country is in an economic transition period.

While the concept of good governance might not be new to Africa, its incorporation into the development debate is a rather modernistic one. Regardless of the issues underpinning this debate interviewee C04 - a World Bank representative - suggested that Zambia has finally come of age in that the concept now appears to be well appreciated by most citizens. Similarly interviewee C09, a past IODZ president, added that while the application may differ from economy to economy, the core elements of corporate governance remain the same. In this context, C04, an interviewee from the World Bank, stated that:

> "The corporate governance link also depends on where you are in the development spectrum, if you are in a country where the governance structures have really collapsed, the link is very visible compared to developed economies where governance and accountability structures are strong. If you are in Zambia the link is there and quite strong and visible".

Consistent with the literature review in Chapter Three, interviewee C04 seemed to suggest that the association between corporate governance and development is more clearly noticeable in countries with weak governance structures. Perhaps this is an indication that in Zambia which, like most African nations, is characterised by weak governance and accountability institutions, improvements in corporate governance practices are likely to have an immediate and direct impact on economic performance. This interviewee also believed that corporate governance has the propensity to encourage the establishment of rules and order in the allocation of resources which should in turn translate into 'better' accountability and enhanced development. Interviewee C07, an NGO executive director, suggested that corporate governance is fundamental in every society - regardless of the level of development - because it encourages the efficient use of resources and those charged with the allocation of resources are made to account for them in a transparent manner. In this regard, interviewee C08, an executive director in a state-controlled company, blamed laxity in corporate governance practices for Zambia's lack of meaningful economic development since the country's independence in 1964; he argued that corporate governance has the broader propensity to enhance accountability and transparency in government and the corporate community to energise development. As alluded to in Chapter Three of this thesis, the alternative approach to discussing the relationship between corporate governance and development involves the notion of a country's economy depending *inter-alia* on the drive and efficiency of its companies, an issue to which the analysis now turns.

8.4 "Properly Run" Firms as the Drivers of Wealth

The notion that 'properly' run companies are central to a country's economic well-being (Ireland et al., 2001; Hart et al., 2003) has generated considerable debate in the corporate governance arena, with Okike (2007) noting that the idea has received appreciable attention in Africa. A question was therefore incorporated into the discussions with interviewees that aimed to assess views about the issue in a Zambian context. Interviewee C09 suggested that for the notion to be of relevance to the Zambian environment, robust corporate governance practices must be alive; in his view, improved corporate governance practices will invariably lead to efficiencies in company operations which can in turn lead to profitability and increased rewards to employees (as well as generating tax revenues), resulting in enhanced economic performance. As a critical tool for development, interviewee C19, a researcher, maintained that mechanisms built on the core fundamental principles of corporate governance should be able to both provide relief to companies to create wealth and help government capture revenues in a transparent and accountable manner.

While the majority of interviewees acknowledged the link between corporate governance and economic improvements, a number of reservations regarding its propensity to benefit Zambia to any meaningful degree were pointed out. Firstly, supporting the notion in its generic form interviewee C14, a senior economist at the Africa Development Bank, stressed that:

> "Companies are the building blocks of any economy, they contribute to the treasury by paying tax, and they empower local people by providing employment opportunities; some of them go beyond the profit motive (particularly in Africa) by addressing social issues that the government should have been addressing, for

> example, helping communities directly in the form of social responsibility. The only problem at the moment is that the companies that are able to create meaningful wealth are very few. The government should also ensure that agreements with such investors are done in an open and transparent manner so that the local communities can also benefit".

While companies are in theory open to public scrutiny, most interviewees expressed a concern that the majority of companies that create wealth in Zambia are not under sufficient pressure of this type to guarantee fair conduct and operations, suffocating accountability and corporate governance. While acknowledging that the notion "properly run firms as the drivers of wealth" is critical for the economy, interviewee C03, an executive manager of the IODZ, maintained that in the Zambian context the situation lacks credence, as few companies demonstrate de facto attentiveness to creating wealth for the nation. Similarly, interviewee C20, a Member of Parliament and Chair of the Economics Committee in Parliament, acceded that while the link between corporate governance and development was very visible, serious governance deficiencies made it inconsequential in the Zambian frame. These deficiencies, according to interviewees C02 and C20, draw together the issues surrounding accountability, transparency and disclosure and the opaque manner in which most companies' operations are conducted in Zambia. Interviewee C01 believed that the mismatch between the designation of the notion and the actuality on the ground could be attributed to widespread corporate misconduct and scandals that continued to occur, particularly in the mining sector. To this effect, interviewee C23, a governance consultant, acknowledged that:

> "Zambia as a developing country needs companies - foreign and local - to drive the economy. If our investors come to Zambia, mine our minerals and take all the money out of the economy there will be no development in this country. Companies are required to conduct themselves properly; they are required to be transparent and accountable, protect the environment and contribute to the country's treasury. All those who are in charge of institutions that produce wealth must do it in a transparent manner that does not provide opportunities for corruption. This can only be achieved if companies operate under the principles of corporate governance".

Notwithstanding these concerns, interviewee C23 argued that corporate governance sensitisation is now leading many Zambians to realise that companies are critical to the future of the country's economy, not only because they provide employment and contribute tax, but because their activities affect the lives of every Zambian. To the extent that these companies are not 'properly' directed and controlled, interviewee C01 maintained that a threat remains regarding the entire Zambian economy and the living standards of its citizens - because corporate governance is weak in Zambia, scrutiny, checks and balances are also weakened.

8.4.1 The Mining Sector in Zambia - Wealth Creation and Corporate Governance

The mining sector in Zambia accounts for more than three-quarters of the country's total export earnings (Coldough, 1997; Andersson et al., 2000; Lungu and Kapena, 2010) and, as a consequence, it provides the foundation for the country's economy[188]. The significance of mining companies to Zambia's finances implies that any performance changes in the sector will inevitably have a significant impact on the country's economic performance. Consistent with this reasoning interviewee C01, a senior researcher, reported that the performance of the mining companies was critical to the country's development by virtue of them accounting for over 70% of the country's foreign exchange on which the country depends to boost other industries. According to this individual, copper production remains dominant in Zambia's national development, and a need for effective corporate governance practices for companies in the sector follows from this. Interviewee C23, a corporate governance consultant, believed that there should be workable mechanisms to hold the mining companies to account if Zambia is to reap the full benefits of its abundant natural resources.

[188]See Chapter Two and Chapter Four for more details.

Most interviewees raised concerns regarding corporate governance in the mining sector in Zambia. The majority of participants thought the mining sector was an appropriate reference point for discussion regarding the notion of "properly run companies as creators of wealth". Major corporate scandals around the world have put corporate governance under a microscope (Vinten, 1994; Leblanc, 2011). In this regard interviewee C15, the executive director of the Economic Commission for Africa, stressed that Zambia has been losing millions of Zambian Kwacha (ZMK) through corporate malfeasance in the mining sector; such events have put the industry in the sights of both local and international observers in particular, on account of alleged irregularities in revenue declaration. Several interviewees[189] maintained that as the mining sector plays a pivotal role in Zambia's development such breaches had direct consequences for the country's economy. Bearing this in mind, most of the individuals who took part in the study contended that the notion of *properly run firms as drivers of wealth* - in the Zambian context - is only meaningful if robust corporate governance practices exist. Interviewees believed that due to weak governance practices in the sector, a number of misunderstandings have emerged ranging from, tax evasion, inflated costs, externalisation of revenue, unfair transfer pricing systems, manipulated copper export data, poor pay for workers and minimal support for communities through to manipulation of financial accounting figures, manipulation of copper prices, hiding revenues from taxation, using derivatives trades to shift profits out of Zambia, unfair hedging patterns, secret negotiations of development agreements and non-compliance with the law and regulation. The next section discusses some of the governance issues raised by participants in relation to this list.

[189]Interviewees C01, C02, C03, C14, C15, C20 and C23.

8.4.1.1 Tax Evasion

Several interviewees argued that tax evasion has become a concern in Zambia following reports that certain companies have been involved in malpractices to avoid paying tax, inducing losses of revenue to support government expenditures. Conceptually one would expect that mining, being the leading sector in terms of foreign exchange, should also be in the lead in terms of contribution to the treasury. In contrast, the tax contribution to the treasury is minimal; for instance, interviewees C01, C03 and C20 noted that despite accounting for over 70% of total export earnings, the sector only contributes about 10% to Zambian exchequer receipts. A participant (who did not want to be recorded for security reasons) stated in this context that:

> "The copper export data seems not to be authentic for some companies because, for example, while much of the copper is believed to be going to Switzerland, and other countries outside Zambia, the Swiss customs data does not show this. The mismatch in the data has raised a lot of suspicion as to who is behind this, and can this be done without the consent of top politicians? So where is corporate governance and accountability? This is a clear indication that issues of accountability, transparency and disclosure are missing in the manner Zambian resources - particularly in the mining sector - are managed".

Interviewee C20 held the government and some mining companies responsible for the difficulties in tax law empowerment. For this, he pointed to the secretive manner in which the two parties have been operating regarding how much the government receives from companies.

According to interviewees C01 and C02, a named mining company operating in Zambia is alleged to have been manipulating financial accounting figures, resulting in huge tax evasion, an act that clearly violates the OECD corporate governance guidelines. Interviewee C02 contended that there are also cases of unfair transfer pricing systems being employed with copper sales between local companies and their parent and sister companies abroad, a practice that is obviously at odd with the 'arm's length' principle. More generally, interviewees C02 and C20 contended that some companies fail to provide honest details of increased operating expenses, leading to fraudulently depressed revenue figures. In this regard, C02 stated that:

> “Some of these companies subscribe to various codes including the OECD guidelines, but look at the scandals being unearthed in terms of tax evasion. So how do we get relief as Zambians from those codes? Much as they subscribe to those codes it doesn’t work, that is why people are suggesting that we take them to court and pin them down on what the law says and not the non-legal binding corporate governance codes”.

The safeguard, according to C12, lies to a great extent in corporate governance standards, which could play a role here. This interviewee suggested that strengthening standards of corporate governance including better monitoring of the tax-paying organisations backed by a strong political will, might lead to more scrupulous compliance with tax rules and ameliorate disorientations in the tax system. The issues raised here are consistent with the views expressed by several authors that tax evasion has become a critical corporate governance issue for economies in transition (Johnson et al., 2000; Robinson, 2001; Roland and Verdier, 2003).

8.4.1.2 Unlimited Externalisation of Profits and Revenues

In a bid to pursue investors, Zambian investment policy was modified with a view to promoting a liberal environment for investment (Zambia Development Agency, 2010). In this context, interviewee C02 pointed out that currently there are no restrictions in terms of the amount of profit and revenue that can leave Zambia. While this approach was intended to induce investment, interviewees C14 and C20 challenged the transparency in policies that allowed foreign companies to fully externalise income streams. Interviewee C20, a Parliamentarian, blamed such a scheme for the liquidity problems and the constant weakening of the currency that the country has been experiencing. To this effect, C19, C20 and C22 all questioned the rationale for an arrangement that leaves the country housing the operations with little more money than that required to settle day-to-day operational expenses. Interviewee C20 observed that:

> "The implication is that all the money from copper sales is externalised and they only recall that which they require to pay salaries and some petty operating expenses; the bulk of the money is deposited elsewhere so at the end of the day much as they will say they exported huge tons of copper, the monetary value does not report in the country. If the money was deposited in the Zambian banks it would mean that a lot of foreign exchange would be involved and this will improve our economy. It also affects the exchange rate; despite the reported increased copper production and exports our currency seems to be heading the opposite direction, depreciating almost every day"

This interviewee pointed out some of the methods allegedly used to facilitate the flow of capital out of Zambia, including the practice whereby subsidiary mining companies operating in Zambia sell copper to their parent companies at gate price - far less than the market price - with the parent company then trading on the London Metal Market. The transfer pricing is arguably designed to lower net income for the local subsidiary exporter with a resultant reduced tax burden.

8.4.1.3 Development Agreements

The 1990s witnessed a sharp fall in the copper price, as well as poor performance more generally and a lack of new investment in the mining sector; these trends were a catalyst for a series of investor-driven reforms. Interviewee C20 argued that it is these same pro-investor driven regulatory frameworks and agreements that unwittingly became the sources of corporate governance controversies, while interviewee C18, the current IODZ president, blamed closed-door agreements between the government and investors that occurred without any input from other key stakeholders. According to interviewee C03, such closed-door agreements - which did not reflect the wishes of the majority of Zambians - resulted in huge tax concessions, unlimited amounts of profit externalisation and extended periods of carry-over losses. For instance, C01 stated that:

> "Companies come to Zambia to take advantage of the weak laws where, for example, the first 5 years they are exempted from paying tax; surprisingly, when the 5-year period expires the company winds-up and comes back under a different name in order to attract another 5-year tax exempt period resulting in the Zambian government losing millions of Kwachas in forgone taxes"

Similarly, C02 mentioned that:

> "On top of several exemptions and allowances, some mining firms negotiated for an extended carry-over loss period. This cannot work in a country like ours where corporate governance is very weak because the mining firms just play around with figures so that at the end of the day they report losses and then pay very little or no tax at all. There is one mining company in this country whose life-span is believed to be lower than the extended loss period agreed with the Zambia government. So what is the benefit for this country and where is corporate governance?"

Interviewees noted that in addition to incentives provided for in the Zambia Development Agency Act of 2006, certain categories of investors are entitled to negotiate with the government for additional incentives (i.e. other than what they qualify for under the Act). The secrecy attached to and opaque nature of such negotiations is what most interviewees blamed for the establishment of wholesale concessions that do not have the backing of the majority of stakeholders. The bone of contention for C02 and C20 appeared to be that while accounting standards do allow for losses to be carried forward and offset against future profits, the extended carry-over loss period adopted by some firms gives too much room for possible manipulation and goes against the dictates of international accounting standards; such behaviour is hard to reconcile with any notion of best practice as regards corporate governance[190].

The difficulty with such an arrangement according to interviewee C02, an executive director of an NGO, lies with the manner in which the agreements are concerted, i.e. they typically lack stakeholder participation and thereby create tension between major stakeholders and the mining companies concerned. In particular, he pointed out that:

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[190]The Investment Act of 2006 provides for carry-forward losses of 10 years for copper and cobalt mining, and 20 years for Konkola Copper Mining and Mopani Copper Mining. Other mining is 5 years, non-mining 5 years, while for farming and non-traditional exports the figure is 5 years (Zambia Development Agency, 2010 p. 11).

> "Any corporate governance discussion in this country is not complete without reference to development agreements signed between the government and some investors. For example, some companies were allowed to pollute free for periods ranging from 5 years and were exempted from prosecution. But in terms of the law of this land pollution is a crime. We feel that this, on our part, is poor corporate governance. Some of these development agreements were signed in secret environments without allowing the communities or stakeholders affected by the operations of the mining companies to have an input. Even hiding information from stakeholders is poor corporate governance".

These disclosures sharply contrast with the postulated principle and spirit of the notion that companies can create wealth and enhance a nation's economic standing. While some of these concessions may have been designed to attract much needed investment, in practice they have worked directly against the purposes for which they were designed - whether this is through manipulation or by design is another question. Because of these pitfalls, the scheme of concessions has undoubtedly raised substantive questions, leading to calls for an urgent governance overhaul. More generally, the majority of the interviewees called for close monitoring and regulation to ensure that accounting policies adopted by mining firms in Zambia are in line with accepted practice and closer to the goals of accountability, transparency and disclosure. Against this backdrop, both C14 and C15 believed that a well-designed accounting system reduces opportunities for manipulation and should help the Zambian government capture all revenues. The preceding revelations seem to have drawn the attention of many Zambians to how the nation's mining companies are directed and controlled. The participants' perceptions here suggest that the notion of companies as creators of wealth for economic development has lamentably failed in the Zambian context, at least for now.

8.5 Corruption: A Corporate Governance and Development Perspective

There is a commonly-held view that robust corporate governance can minimise extant levels of corruption (Shkolnikov, 2002; Wu, 2005). Interviewees C01, C02, C03, C20, and C22 believed that corruption was alive in Zambia - reflecting governance failures - and that this was a substantive impediment to development. Interviewee C01 contended here that:

> "Nobody denies that corruption in this country is really at its height. Corruption is also a form of theft; resources go into private pockets instead of the public domain. Most revenues collected by the government are an understatement of what the government should have collected in a corruption-free environment".

Correspondingly, interviewee C04, from the World Bank, declared that:

> "Corruption is in itself bad governance and it affects development negatively. For example, the quality of service delivery is compromised, resources do not reach the intended targets. Corruption increases the cost of doing business, projects are overpriced, contracts are given to contractors who have no capacity to do the job, and many of these contracts are either abandoned or the final works are sub-standard".

Interviewee C23 argued that Zambia, like many developing countries, requires scarce resources to be applied 'correctly' for purposeful development to take place. Corruption in this context was viewed as a problem of accountability and a number of interviewees [191] highlighted factors that mitigate against development in the presence of corruption: distortions of economic planning (C14); encouragement of poor service delivery (C22); propensity for resources meant for development to end up in people's private pockets (C01, C15); development projects being over-priced, putting a drain on (meagre) resources (C04, C08); effect on competition (C17); increases in the cost of doing business (C04, C08); suppression of laws and regulation (C06); promotion of inefficiencies in the economy (C01, C22); and worsening poverty (C02, C03, C08). The interviewees' arguments against corruption evidenced a belief that corporate governance represents the alternative philosophy to straightforward confrontational approaches to fighting the 'scourge'.

Interviewees C01, C14 and C15 maintained that Africa - and Zambia in particular - loses vast sums of money each year through corruption; here C15 stated that:

[191]Interviewees C06, C08, C14, C15, C17 and C22.

> "It has been demonstrated that the illicit financial frauds through corruption in Africa alone is enough to cover the aid and investment that we get. But the major question is, how do we stop those resources from corruptly going out and how do we bring those resources back. Do we need revolutions like in Libya for the world to realise that this is not good and has been affecting development on the African continent? Some African leaders, the outside world and the so called tax havens have contributed to this problem".

Between 1970 and 2008, an estimated US$854 billion had been siphoned out of Africa through corrupt means of which Zambia is involved (Cartwright-Smith and Dev, 2008). Interviewee C01 argued that examples of how Zambia's resources have been abused abound and if all the money that has been looted were invested back in Zambia, there could have been a different way of life for its citizens. Interviewees commonly argued that focusing on improving corporate governance standards can help fight corruption and hopefully unlock a nation's prospects for growth.

8.6 Accountability and Development

As a generic concept, accountability refers to the state of being called to account for one's actions or inactions (Mulgan, 2000; Boven, 2006). Conventional theory holds that there is an express relationship between accountability and governance and this link has become part of the modern governance paradigm (Boven et al. 2008). Similarly, the abundant literature suggests that there is an express relationship between governance and development (World Bank, 1989; Ogendo, 1995; Feinberg, 1998; Kaufmann et al., 1999; Rwegasira, 2000; Hyden et al., 2004; NEPAD, 2007; Arun and Turner, 2009). Indeed, Solomon (2010) argues that it is the association between accountability and economic development that has put corporate governance in the public limelight. To explore the issue of accountability, a question designed to detect the interviewees' opinions about the extent to which the perceived governance problems in Zambia were linked to accountability - and how accountability can contribute to better governance and development - was included in the discussions. This question is theoretically driven in the sense that the present thesis is underpinned by the accountability philosophy. The interviewer's observation was that all participants were able to provide a rational argument about the relationship between good governance, accountability and development with the majority clearly believing that there cannot be good governance and development without accountability[192]. Typical of this perspective is the argument by C11, a member of the IODZ:

> "Accountability is one of the pillars of corporate governance, so the absence of accountability means the absence of good corporate governance. We are coming from a system of a lack of accountability at almost all levels of the economy. Accountability is not just about being accountable for money but also for one's actions. Accountability has become a public good".

The overwhelming majority of interviewee responses[193] to this question suggest that robust corporate governance is widely seen as being underpinned by accountability and, equally, that any debate about governance and development in Zambia is not authentic without setting it in an accountability frame. Interviewees argued that the development challenges facing Zambia and other African countries often point to a lack of accountability; the fact that the Zambian economy has remained fragile despite the nation being favoured with rich natural resources was mentioned in this context. While Zambia's development problems and constraints are varied, interviewees believed that the relationship between accountability and development remains one of the most critical. Interviewees C09 and C23, past IODZ presidents, both argued in favour of accountability at three particular levels; personal, corporate and state. In their view, accountability should start at the personal level, which

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[192]The following are some of the positions taken by interviewees: "accountability in itself is governance" (C01; C18); "accountability can contribute to better governance" (C02; C04; C08); "accountability is key in corporate governance" (C03; C10; C13; C14); "accountability is important for governance and development" (C05; C22); "accountability is a characteristic of good governance" (C06); "accountability is part of governance" (C07; C21; C24); "accountability eliminates corruption" (C09); "accountability is one of the pillars of corporate governance" (C11; C16; C23); "the whole essence of corporate governance is accountability" (C12); "accountability is a sub-set of corporate governance" (C15); "accountability leads to better utilisation of resources" (C17); "you can't have a functioning governance system without accountability" (C19); and "lack of accountability in this country is a sign of bad governance" (C20).

[193]Interviewees C01, C02, C03, C04, C05, C06, C07, C08, C09, C10, C11, C12, C13 and C14.

most interviewees associated with the concept of ethics and integrity. Here, interviewee C23 maintained that:

> "Accountability is one of the key pillars of corporate governance, at human, corporate and at state levels. Unless people who run these institutions at whatever level are men and women of integrity with unquestionable ethical standing, corporate governance cannot survive. The practice of corporate governance itself depends to a greater extent on the individuals running these companies".

In fact, most interviewees' rationalisation of the need for accountability was on the basis of its influence on the quality of governance and development by subjecting those charged with the management and allocation of resources to appropriate checks and balances.

8.6.1 Accountability at the Personal Level

Interviewees C03, C18 and C24 contended that accountability at a personal level should be the foundation of the whole accountability process. In this, they argued that while accountability may be dictated or implied by law, regulation or agreement, on the ground its existence rests on individuals. Nevertheless, a good number of interviewees acknowledged that personal accountability is controversial and depends on a number of contextual factors such as cultural values and beliefs. On this point, interviewee C20 asserted that:

> "There is a strange culture in this country where people do not want to be accountable either because of cultural issues or simply because they are doing wrong things and if they are to be accountable for the wrong things they will obviously be punished. For example, there are serious cases in the Auditor General's Report every year about the lack of accountability in government, parastatals and government agencies but people do not seem to be concerned. There is no political will to ensure that there is greater accountability".

Similarly, interviewees C01, C02 and C06 claimed that because of this cultural rigidity, people in Zambia do not take accountability seriously - for instance, it is very rare to see Zambian managers resigning their positions in government, public and other organisations, even if they are involved in scandals or have breached ethical conduct. Here, interviewee C01 pointed out that:

> "We have this tradition where if somebody does something wrong, instead of reporting them we prefer to remain mute because if they are fired from work, society will condemn the whistle blower for reporting them. It is this silence which becomes a big problem for our country and for development. We need whistle blowers and there must be somebody to listen and that is where we miss it because there are no institutions to listen or it will depend on who the whistle has been blown against. So institutions like the Anti-Corruption Commission and the legal system must be above board and we must find a way of appointing members to these institutions above political affiliation".

This issue has, according to C01, been largely overlooked in Zambia and is responsible in part for low levels of individual accountability in practice.

8.6.2 Accountability at State level

Interviewees cited the government, state spending agencies and SOEs as some of the organisations with the lowest levels of accountability standards in Zambia. As demonstrated in the previous chapter, and earlier in this section, accountability and corporate governance were seen by the interviewees as inseparable, with anaemic corporate governance standards being associated directly with passive accountability. In this regard, C23 argued that:

> "Huge commentaries on lack of proper accounting for public expenditure, lapses, irregularities and misuse of public funds have been raised in the Auditor General's Report, but due to the weak public accountability framework, year in year out, the same issues keep on coming out and nothing seems to be done about it. The report is just a cry in the wilderness. The government ought to be accountable".

Interviewees C07 and C20 claimed that a lack of effective accountability systems in government led some donor countries to withdraw development funds; in some cases the Zambian government even ended up reimbursing donors for the misappropriated funds. In support of this assertion, C20 stated that:

> "Recently there were reports of misappropriation of money in the ministry of health. The government, through the Ministry of Health, was forced to refund the embezzled Global Fund amounting to about US$ 13 million. This also led donor countries like Sweden and the Netherlands to withhold huge amounts of money and funding to the Ministry of Health. But with all these irregularities no one has been held accountable

and unfortunately the tax-payer's money will have to be used to refund the Global Fund[194]. We are not going to develop this country in the absence of accountability".

Evidence of misappropriation and a failure to apply sanctions is a clear manifestation of an accountability framework so weak as to foster significant corruption. Interviewee C02 explicitly argued that accountability that does not provide for sanctions is not meaningful. This reasoning is consistent with evidence reviewed in Chapter Five where scholars argued that accountability that has no capacity to impose sanctions as a punishment for unsatisfactory answers from those who are called to account is defective (Burritt and Welch, 1997; Schedler, 1999; Mulgan, 2000; Mainwaring, 2003; Boven, 2006).

8.6.3 Accountability at Corporate Level

Corporations are generally expected to be accountable for their actions to all stakeholders affected by their operations (King Report, 1994). In the Zambian context, interviewees believed that corporate accountability should be extended to non-shareholding stakeholders, thereby including environmental and social perspectives. According to interviewee C10, the assumption that economies around the world have come to depend on corporations for wealth creation and economic prosperity has major implications for corporate accountability; similarly, to the extent that corporations operating in Zambia are not accountable, C20 remarked that the effects have a direct and substantial impact on the economy and society at large. This interviewee also held the lack of accountability in the corporate sector in Zambia responsible for current industrial disorientation, particularly in the mining sector where some companies have been involved in understating revenues, polluting the environment at will, producing misleading accounting reports, evading tax and other irregularities all of which have serious implications for economic growth. Interviewee C24 extended this argument further by challenging the conventional shareholder-centric

[194]The Global Fund is money given to Zambia by different donors to help the fight against HIV/AIDS, tuberculosis and malaria. Sweden and the Netherlands are two of the largest contributors to the fund.

accountability model pursued by most corporations operating in Zambia. She maintained that:

> "As a country we have adopted outside codes in totality without modification. There are no new issues that have been added to these codes. In this sense we have ended up embracing principles that prioritise companies' accountability to shareholders and disregard other areas of corporate governance such as the companies' impact on the environment and communities in which they operate. They tend to focus purely on making money for the owners"

Several interviewees acknowledged that Zambia has also seen increased demand - particularly at community and civil society level - for more transparency and disclosure as a way of enhancing accountability in the country. In this context, interviewee C01 predicted that once government and key businesses begin to disclose the flow of resources, citizens will be empowered with vital information on how much the government gets from the corporate sector and how this is allocated across the economy[195]. The issue of disclosure is now a serious agenda item, not only for Zambia but for the international community as well. Here, interviewee C01 stated that:

> "I have argued before the European Commission (EC) that if they don't force the Zambian government and the major corporations operating within Zambia to be accountable for the resources that they generate and how they distribute them, the EU and other donors will end up paying for this through aid to cover up what this government has failed to recover from the corporations operating in Zambia. In this regard, the EU, donors and NGOs outside this country have also become interested parties in ensuring that the government discloses how much they earn from the firms' operations. If they don't assist us, they will end up subsidising the government where the corporations making huge profits should have paid".

In this regard, C01 believed that disclosure becomes an important element of accountability as citizens will be empowered to demand better accountability - and a better resource

[195]This is consistent with the requirements of a new African campaign group called 'Publish What You Pay' an initiative intended to strengthen accountability through disclosure. PWYP is a worldwide movement for greater transparency and accountability in resource-rich, developing nations and has insisted for a decade that the proceeds of natural resource wealth, which far exceed aid flows, should help finance development rather than fuel corruption and conflict. According to PWYP's principles, if people know what their government is receiving from mineral rights they can have a greater say in how that money get spent; the less transparency there is, the easier it is for corruption to seep in and remove away opportunities for millions of people to improve their own lives.

allocation will emerge. However, when government and industry's dealings are not fully transparent, individuals will naturally be suspicious about their operations and this is when corporate governance and institutional capacity come in. The conventional argument, as C04 indicated, is that accountability can contribute to better governance only when institutions and systems exist that have the capacity to hold people and organisations accountable for their actions. A lack of accountability also featured highly on the participants' constellation of factors that make corruption difficult to deal with in practice.

8.7 Institutional Capacity

Institutional capacity is fundamental to the role of accountability in governance and development (IMF, 2000; Haglund, 2008). Equally, the theoretical implication that corporate governance matters greatly for developing countries (Babic, 2003; Oman, 2003; McGee, 2008; Siddiqui, 2010) is an indication that such nations need to establish institutions that promote robust corporate governance systems. Recent evidence suggests that corporate governance in transition economies is highly influenced by legal, regulatory and institutional frameworks (Wanyama, 2006; Rezaee, 2007; Wanyama et al., 2009) but most interviewees in the present study argued that there is no dearth of such institutions in Zambia and the main challenge relates to the fact that like other economies in transition, the nation is exposed to general weaknesses in terms of resources, enforcement and independence[196]. To protect public and private resources from abuse, interviewees C21 and C23 maintained that institutions that will embrace accountability at all levels must be put in place - equally, people in these institutions require exposure to good corporate governance. Indeed, a

[196]The following quotes are typical of those put forward by the interviewees: "Institutions are there but they are weak" (C03), "the forms of institutions are there but the substance is not" (C04), "they lack adequate laws to back them" (C06), "Zambia lacks institutional capacity" (C07), "We have the institutions, they are just weak" (C08), "Institutions are there but they lack capacity to implement and enforce" (C12), "We have institutions but they need strengthening" (C13), "institutions are there but they are very weak" (C14), "Institutions are there but they need strengthening" (C19), "accountability institutions are weak" (C18), "governance institutions are weak" (C17).

number of governance problems experienced in Africa are exacerbated by the effects of weaknesses in institutional design for example, Wanyama's (2006) study of Uganda. Strengthening corporate governance frameworks - and building institutional capacity - is therefore likely to improve state and firm-level governance practices.

8.7.1 Legal and Regulatory Arrangements

The interviewees argued that heightened awareness of the principles of corporate governance alone will not in itself generate practical change unless this is accompanied by rules and regulations that are enforced in a robust manner. In this regard, enforcement and compliance monitoring were seen as playing a critical role in the process in terms of levelling the playing field for all participants. Underlying these assumptions, several interviewees[197] observed that the country's weak corporate governance position was compounded by the non-existence of laws and regulations that were specific to governance of the nation's firms. While some interviewees pointed to extant commercial law, interviewee C01 perceived the latter's general nature to mean that it is of little benefit in promoting and mitigating complex corporate governance issues in practice. These and other concerns prompted most interviewees to propose a fusion of laws and corporate governance that matches the demands of globalisation and the liberalised economic environment existent in transition countries like Zambia. In this context interviewee C08, an executive director in a state-controlled organisation, contended that the extant lacuna in the current legal and regulatory framework provided fertile ground for the corporate governance abuses which the country has witnessed, particularly in the mining sector. Similarly, interviewee C19 asserted that:

> "The governance situation in the country is simply not commensurate because even the minimum rules are not being enforced. Having rules is one thing and enforcing them is another. For instance, a law has been passed that the minimum wage is K419 000, this is law but some employers do not apply it and no one seems to be

[197] Interviewees C06, C07, C11, C12 and C20.

> concerned. In some cases the laws are weak, a company pollutes a river and gets a charge of K12 million. Meanwhile the destruction to nature is huge, fish, the environment, the effect on the people who drink from the polluted rivers. Those who run public offices do not feel substantially responsible for their actions".

Similar sentiments were expressed by interviewees C12, C20 and C22. Interviewee C20 gave an example of a Parliamentary Committee's investigation of a mining company that did not provide workers with protective clothing despite this being a legal requirement because of the dangerous conditions the mine workers were exposed to. Interviewees C01 and C19 argued that as is common with private capital, the dominant focus is profit and so nation's authorities must ensure that corporate conduct is carefully monitored and regulated through appropriate laws. From the interviewees[198], perspective, the extant corporate governance problems in Zambia range from weak legislative and regulatory frameworks to non-observance of rules. In this context, the view of a sizeable majority of the interviewees was that corporations destined for the Zambian environment must commit themselves to comply scrupulously with local corporate governance guidelines as well as national laws and regulations. Similarly, Zambia must also update the legislative and regulatory frameworks on which the Zambian corporate governance guidelines are founded to match the challenges of globalisation.

8.7.2 Public Accountability: The Office of the Auditor General (OAG)

The discussions also focused on issues surrounding government and other public bodies' spending; here interviewees C02, C04 and C23 identified the Zambia Public Procurement Agent (ZPPA), Energy Regulation Board (ERB), the Anti-Corruption Commission (ACC), the Drug Enforcement Commission (DEC), the Human Rights Commission (HRC) and the Office of the Auditor General as some of the key public oversight institutions that can provide basic checks and balances in the country. While the majority of interviewees cited

[198]Interviewees C01, C07, C08, C11, C12 and C20.

parliamentary oversight as essential in providing checks and balances to the executive and keeping the government accountable, C04 and C22 both contended that the system in Zambia is highly politicised, limited in most cases to budget approval. Supporting this assertion, interviewee C23, a governance consultant, argued that the executive often make major budgetary changes without the prior consent of parliament; in addition, the government sometimes spends vast sums of money outside the budget without disclosing the sources of funding to parliament thereby rendering the whole public oversight system meaningless.

While interviewees mentioned several different accountability institutions, the OAG appeared to be viewed as the most influential when it comes to public accountability. The OAG - which draws its mandate from the constitution of Zambia - is charged with the responsibility of enhancing accountability and transparency in the management of public resources and virtually all the interviewees mentioned it by name. For instance C09, a governance consultant and past IODZ president, argued that every year the OAG's Report notes billions of Zambian Kwachas escaping government coffers in an unaccounted manner. While acknowledging the significant and critical role that the OAG plays in promoting and strengthening corporate governance and accountability in the public sector, interviewees C01, C02, C03, C04 and C22 all maintained that the institution lacks the capacity to achieve its stated objectives, rendering the report a 'long, sad story' and little more than a rhetorical document. In this instance, C22, a researcher and consultant, mentioned that:

> "The Auditor General's Report goes to parliament late and it does not mention the names of the culprits. The Public Accounts Committee (PAC) report is tabled in Parliament; a resolution is passed and sent back to government for action by, the same executive that failed to deliver in the first place. How does that help accountability? It is supposed to be acted upon within 90 days but it takes not less than 6 months. The answers are also irrelevant because they will just put 'comments noted'. The system itself is self-defeating because it produces no results".

Despite highlighting irregularities in the management of public resources, interviewee C02 argued that the system lacks the capacity for sanctions when unsatisfactory answers are given. Similarly, C16, a senior officer in the OAG, pointed out that issues addressed in one ministry can reappear in others with more serious implications for accountability, rendering the latter a 'circus' in government activity. The major weakness, according to C16, lies in the OAG's lack of resources and government support. Here, interviewee C20 suggested that:

> "The Auditor General's Report shows that there are certain government institutions that have collected money and have not banked the same for 500 days. People have collected imprest and they have not retired the same for years. In the current report some provincial administrative wings cannot account for money that was sent to their provinces for feeder roads; others used money meant for capital projects on imprest and funeral grants. Even when such anomalies are highlighted in the Auditors' Report nothing has happened. Funds meant for cattle restocking in one province and land funds in one district have disappeared".

Acknowledging the importance of the OAG - and as a way of enhancing accountability - interviewee C01 directed attention to the overall objective of improving institutional capacity in order to strengthen corporate governance in government spending agencies and SOEs; such change, he suggested, is needed as corporate governance failures in most developing countries are associated with institutional weaknesses.

8.8 Chinese Investment and Corporate Governance in Zambia

Chapter Four outlines the growing influence of China on Zambia's political economy and it was apparent from the interviewees that the influence of Chinese investment[199] on the country's corporate governance framework is being felt. Interviewee C19 noted that whist the increased investment was helpful, it has created friction between several investee companies and some sections of Zambian society. The debate about Chinese investment in developing countries such as Zambia has focused on issues such as labour and environmental law, health and safety standards, and social responsibility, all of which are

[199] The last decades have witnessed increased Chinese investment in Zambia, with the stake amounting to more than US$2 billion in 2012 (Maimbolwa, 2012).

essential features of robust corporate governance systems (Haglund, 2009). These and similar matters have become critical governance and development concerns, with several interviewees questioning Zambia's benefit from such investments. The Zambian government's failure to strike a balance between: (i) increased Chinese investment; and (ii) the interests of local stakeholders and the consequential impact on overall governance in Zambia, poses a series of challenges for corporate governance reforms in the country. In this context, the majority of interviewees perceived 'good' intentions as underpinning Chinese investment in Zambia; however, a sizable number pointed out that most Chinese firms lack a strong foundation in corporate governance practices. This perspective is typical in a statement made by C19, an academician, thus:

> "If we are to benefit from Chinese investment we must ensure that Chinese firms are seriously committed to quality corporate governance practices. The government must play a role here so that corporate governance becomes part of the investment requirement. This can be captured in the Investments Act in order to level the playing field and for the country to benefit from such investment."

Despite alleged misconduct by most Chinese companies, this interviewee argued that it is rare in Zambia to see government and law enforcement agencies taking a 'hard' stance against bad practices, further raising suspicions about corruption.

8.8.1 Corporate Governance Sources of Conflict with Chinese Firms

Although China's business relationship with Zambia dates back to the 1970s, several interviewees believed that there has been a growing interest in issues surrounding Chinese firms and corporate governance in the last decade. For instance, interviewees C03, an IODZ executive and C22, a researcher and consultant, both attributed the extant governance dilemmas to the Chinese procedural approach to investment in Zambia:

> "The Chinese approach is to first of all identify themselves with the political governing elite. A delegation of investors comes into this country, instead of visiting institutions that are responsible for investment in Zambia such as the Zambia Development Agency (ZDA). Investors start by visiting State House, making it difficult for the other offices below the President to question anything. Experience

> shows that the observance of the laws and good corporate governance practices is normally very poor for investors that come through State House" (C22).

It was noted by various interviewees that Chinese firms have been cited for bad corporate behaviour ranging from: the use of unlicensed guns to shoot at protesting employees (C19; C20; C22); poor human rights (C15; C22); low wages and poor working conditions (C19); a lack of concern for workers' health and safety (C20); non-observance of labour and environmental laws (C15); an absence of concern with corporate social responsibility (C01; C17; C19; C21); the importation of non-skilled labour forces from China (C01; C15; C17; C19; 20); the non-submission of funds (pensions) under statutory obligations (C01; C03; C17; C19); and, in most cases, the lack of a board of directors (C01). For instance, interviewee C20 claimed that:

> "There are a number of companies in this country that have ignored the health, safety and environmental laws because in some cases the very people who are supposed to be enforcing the laws become spokespersons for the investors. We have had cases of ministers answering questions on behalf of some companies. For example, in the year 2010, at least 11 employees were shot at by management of a Chinese Collum Coal Mine in Southern Province with unlicensed arms - to date no one has been charged. The government is always siding with the investor, so who is going to side with the citizens?"

Ienciu (2012) argues that corporate governance supports an ethical corporate culture, inspires ethical behavior and is a commitment to ethical business practice. Failure to commit a company to ethical behaviour, therefore suggests non-compliance with good governance practices (Solomon, 2007) and the OECD principles explicitly encourage businesses to recognise and safeguard stakeholders' rights and adhere to high standards of corporate behaviour and ethics. However, for many interviewees, it was not only issues of unethical corporate conduct but other violations of basic human rights that are relevant in the context of Chinese investment in Zambia.

The participants believed that the corporate citizenship concept relates directly to environmental, social and governance responsibilities of a company, meaning that boards must also strive to address this dimension in its approach to different stakeholder groups. More formally, there is a requirement in the UK's Turnbull guidance on the Combined Code on Corporate Governance for listed companies to seriously consider issues relating to the environment, health and safety. However, interviewees C17, C19 and C20 all maintained that Chinese firms regularly ignore standards relating to a number of governance issues including: pollution[200]; mistreatment of local workers; pay and working conditions; safety and environmental standards; and local cultural practices. Interviewee C20, a legislator, declared that:

> "As a Parliamentary Committee, we visited a Chinese mining firm operating on the Copperbelt; the workers did not have protective clothing and a mining representative wanted the committee to tour the mine plant without safety attire. We found this to be extremely dangerous because the company was gambling with peoples' lives, and this is what they do with the safety of hundreds of employees' lives. The toilets and showers were made in such a way that miners were exposed as they were using them. In another Coal mine in Southern Province, despite working in coal dust environments, the workers did not have anything to protect them, no face masks, no safety shoes. Miners work in their own clothes"[201].

It is widely acknowledged that a dedicated, knowledgeable and rigorous board of directors is central to an effective corporate governance system (Van den Berghe and Levrau, 2004). While there has been a surge of interest in the principles of good corporate governance across much of the world, most participants in the present study believed that Chinese firms do not consider it prudent to implement corporate governance measures and align their firms with global best governance practices. While the above problems may be attributable to

[200] For example, interviewee C20 claimed that a Chinese-run mine has been polluting a local stream with black sediment from waste coal. The stream is the source of drinking water for the local community and flows into Lake Kariba, which provides commercial fishing.

[201] Health, safety and environmental issues have obvious corporate governance implications as was witnessed dramatically in the Exxon-Valdez oil spill in Alaska in 1989 and the 2010 BP oil spill in the Gulf of Mexico leading to loss of life and devastating environmental damage. BP shareholders have been reported as contemplating suing its board of directors for failure to adhere to good corporate governance practices (Calkins, 2010).

Chinese investment, interviewees were quick to point out that the difficulties were exacerbated by underlying weaknesses in Zambian governance and accountability institutions. For example, most of the interviewees[202] argued that the difficulties related to Chinese investment in Zambia were partly a local creation. This line of argument was based on a perception that where China was investing in countries outside Zambia these problems did not occur. For instance:

> "The Chinese are not only in Zambia, they are all over the world, but when they come to Zambia things are completely different, they prefer cheap labour, they do not observe Zambian labour laws, they want to do simple jobs that Zambians can do including that of pushing wheelbarrows and they pollute with impunity. Some of these Chinese investors are now raring chickens while others are busy selling cheap clothes in the local markets competing with local people in the informal sector. The problem is not the Chinese, it is us Zambians, we should set minimum conditions; we should engage them on certain conditions" (C23).

The above quote points to (perceived) governance-based sources of conflict. In this regard, interviewee C23 argued that extant legislation and regulation set out expected standards of 'acceptable' corporate conduct in various areas; however, as noted earlier in this chapter, laws and corporate regulation that lack enforcement are effectively obsolete in Zambia[203]. Several interviewees called for a modified legal system that accommodates the fluidity and dynamism of modern business in a liberalised economic environment, but has the power to influence overseas firm behaviour on Zambian territory. Interviewee C01 argued that Chinese authorities take domestic business misconduct seriously, stating that: "In China people go to jail for cheating on contracts so why do they do it here"? In this context, a

[202]Interviewees C01, C02, C03, C05, C06, C09, C11, C14, C15, C17, C18, C19, C20, C21, C22, and C23.
[203]The following two quotes summarise stakeholders' views about the non-observance of Zambian laws:

> "Are the Chinese firms aware that this country has got its own rules and regulations and who is responsible for enforcing them? There are a lot of deviations from the law. At this stage government is not really concerned about governance issues in private companies. As long as the company is able to employee people issues of governance are manipulated" (C03).

> "Sometimes the Chinese investors tend to do things as if there are no laws in this country. When the same Chinese go to South Africa they follow the South African laws and elsewhere like the UK, and the USA, but in Zambia because of corruption and weak accountability institutions they create their own laws. We have laws on safety, environment and labour but they cannot be enforced" (C20).

number of interviewees[204] argued that Chinese investors take advantage of the weak laws and accountability institutions found in Zambia to achieve ‘short-cuts’. This assumption is consistent with extant literature; for instance, Haglund (2008) argued that the capacity constraints in terms of the regulatory framework, coupled with political interventionism and the absence of transparency pose significant challenges as regards Chinese investment in Zambia.

Interviewees C01 and C17 maintained that because most Chinese investment is arranged between the two governments directly, a number of the companies that come to Zambia are actually Chinese state-controlled companies. Against this backdrop, the interviewees pointed to a common belief that across the globe most SOEs are weak in terms of corporate governance standards relative to privately-owned enterprises; as such the Chinese SOEs investing in Zambia are not an exception. This is in line with earlier studies such as Haglund (2008) who argues that by providing financial support to Chinese investing companies, the Chinese government influences corporate governance in such firms; this, he contended, empowers the Chinese government to exert control over Chinese firms operating in the private sector in Africa. While most multinational companies operating in Africa are private, Frost and Ho (2005) pointed out that the largest Chinese multinationals are actually state-owned. In this context, Tull (2006) argued that China’s interest in Africa is not only commercial, but political and diplomatic. The spectrum of corporate misconduct exemplifies the modern reality that corporate governance in Zambia requires strengthening to prevent such egregious disregard for its principles and, just as importantly, to maximise the financial benefits from the Chinese windfall.

[204]Interviewees C01, C11, C14, C15, C18 and C21.

8.9 Corporate Governance Benefits and Challenges in Zambia

Interview participants endorsed the view that the propensity of corporate governance guidelines being embraced is likely to be small if those affected do not see the benefits. In particular, unless stakeholders begin to focus on corporate governance's benefits instead of its costs it is likely to be viewed with widespread scepticism and indifference. Consistent with this line of thought interviewee C08, a parastatal executive, suggested that the link between corporate governance and development is related to the benefits that accrue when widespread engagement is fostered[205]. Interviewees contended that corporate governance benefits in this context ranged from enhanced accountability and an improved investment climate through to fostering economic development. Interviewee C20 remarked that:

> "There is everything to gain in governing ourselves properly starting at individual, corporate and state levels. We slipped from a middle income country in the 1970s to a least developed country due to poor governance, especially corporate, because politically we have been relatively stable. There are countries that were with us at the same level in the Far East but have gone so far ahead. To get rid of poverty we must govern ourselves properly politically, economically and in particular corporate governance. Good governance is the heart of development".

Interviewees C15 and C20 believed that some of the benefits of robust corporate governance include efficient resource allocation, better economic management and eventual economic prosperity; at the same time, common anti-development vices such as corruption, theft, misapplication of resources were thought likely to be curtailed.

8.9.1 Promoting Investment in Zambia

Interviewees argued that the shortage of capital in many developing nations, including Zambia, remains a decisive impediment to economic recovery. Conceptually, corporate governance is purported to play an important role in increasing capital flows to firms and nations at large, particularly developing countries (La Porta et al., 1998; Klapper and Love,

[205] This view was shared by most participants.

2004). Many of the interviewees[206] held the view that corporate governance is indeed fundamental in creating a conducive environment for investment, particularly for transitional countries like Zambia, leading to better resource allocation, increased productivity, creation of employment and year-on-year growth. These individuals argued that the major problem affecting Zambia's economic recovery is the difficulty faced in attracting capital for industrial financing, although robust corporate governance practices have the propensity to improve the situation by inspiring investor confidence and supporting the private sector. Here, interviewee C09, a consultant and past IODZ president, advanced the view that:

> "Sound corporate governance practices lead to investor confidence resulting in increased flow of investment. The current increased investment, particularly in new mining projects, though mostly attributed to political stability will in the near future come to depend on robust corporate governance practices in investee firms. Corporate governance should in fact become part of the Investments Act and therefore a requirement to invest in Zambia".

Similarly, C17 believed that:

> "Well run companies can source capital from international organisations such as the World Bank, International Finance Corporation (IFC), Africa Development Bank (ADB) and others. Such companies with well-established corporate governance structures demonstrate capacity to pay back. Before accessing money from such lending financial institutions, firms must have passed the corporate governance test profile".

The issue was characterised in unequivocal terms by interviewee C10, a multi-national CEO, who argued that:

> "If you are a company looking for funding, governance is a critical issue, whether you are looking for funding locally or internationally be it equity or debt. Anyone who wants to put money in your business wants to know how well your business is run and corporate governance becomes core to investment discussions. African economies have been growing, and as economies grow good corporate governance practices become critical. There is a positive correlation between company expansion and economic growth and governance".

Interviewees C16, C17 and C18 all asserted that in a global economy investors have the whole world to 'shop around' in to find the best use for their money, therefore countries and

[206]Interviewees C03, C07, C09, C10, C11, C13, C14, C16, C17 and C18.

companies that exhibit sound corporate governance qualities are more likely to attract capital[207].

However, some interviewees[208] were quick to point out that much of the investment in Zambia in recent years has gone into green field projects, and has more to do with political stability than the underlying corporate governance situation. Here, interviewee C23 mentioned that:

> "Much of the investment that has been coming to Zambia is in new areas (Greenfields) meaning that the investors' interest in these areas for now is stable political governance and poor corporate governance. That's why we have seen FDI coming in despite average corporate governance. But when it comes to foreigners partnering with Zambians, investors are particularly concerned about the quality of corporate governance. This is a challenge for us to put our corporate governance house in order".

There was general agreement that as investment starts to be made in existing business portfolios, corporate governance issues will increasingly be put under the microscope.

8.9.2 Challenges

The evidence in this thesis suggests that widespread embracing of the notion that improved corporate governance is likely to lead to economic benefits in Zambia has yet to happen; this pattern is consistent with the notion that numerous economic and societal challenges still characterise developing nations (Nganga et al., 2003; Rossouw, 2005; Wanyama et al ., 2009). The major difficulties that exist in such environments reflect the fragility of governance and accountability institutions that are supposed to act as the building blocks for invulnerable corporate governance practices. As the perceptions of interviewees outlined in the previous sections make clear, frail legal and regulatory frameworks are seen as generating serious compromises for the quality of corporate governance in Zambia. The opinions of interviewee C12, a Government agency manager, are pertinent here in

[207]While the need for increased investment appears to be pressing, interviewee C20 contended that close attention needs to be paid to the manner in which investors' agreements are designed.
[208]Interviewees C11, C14, C16, C20 and C23.

suggesting that these challenges obscure the purported overall benefits of the governance concept. One of the challenges, according to interviewee C01, is overcoming international corporations' belief that Zambians are not sufficiently sensitised to the issues underpinning corporate governance; as a result, the firms concerned tend to ignore the notion until they are challenged. For example interviewee C05, the LuSE Chief Executive, argued that the increased realisation amongst companies listed on the LuSE that corporate governance is important, has not permeated through to SOEs and the many small, mostly family-held firms that operate in Zambia. In this regard, interviewee C11, a member of the IODZ, remarked that cost-benefit reasoning, especially in SMEs, appeared to have had a major impact when it comes to the faithful observance of corporate governance principles.

Another challenge, according to interviewees C14 and C17, stems from the fact that the extant corporate governance codes in Zambia draw heavily on international guidelines, leading to some interviewees questioning the relevance of such codes to Zambia. While the majority did not appear to see this as a challenge, the argument as presented by these two interviewees, related to direct boiler-plating of other nations' guidelines, with the attendant danger of local cultural values - which sometimes run counter to corporate governance - being compromised at best. As for the public sector, the biggest challenge according to interviewee C11 relates to the governance structures themselves, with government or politically connected officials dominating boards and pursuing agendas that are more politically-than commercially-driven. Interviewees C07 and C08 both argued that Zambia's emergence from the dominance of state-controlled economic discourse to a system where private participation is key has brought about numerous challenges, impacting on business, culture and management style all of which in turn have a major influence on corporate governance and accountability. However, some Zambian institutions continue to operate under an aura of secrecy which appears to be entrenched, a typical reflection of a social-centric approach. This situation may well be at variance with the tenets of the modern governance disposition.

8.10 Conclusion

Despite on-going debate about the extent of governance interplay with development in modern-day Zambia, the evidence presented in this chapter suggests that promising strides have been made to conceptualise the paradigm in a meaningful way. Most of the interviewees appeared able to appreciate the alliance between corporate governance and economic advancement; an understanding of the link as one of the essential - but missing - ingredients in the country's search for greater accountability and improved resource allocation also emerged. Despite maintaining political stability, the country has failed to achieve meaningful economic growth and the views detailed in this chapter suggest a widespread perception that long-standing governance weaknesses continue to make development elusive. In particular, the interviewees see 'properly-run companies' as engines for wealth creation and fundamental to Zambia's recovery. The huge amounts of taxation and other revenue that Zambia has failed to capture - and the dwindling economic prosperity experienced by the country - was cited by those taking part in the interviews as evidence in line with the (conventional) view that poor corporate governance can lead to economic mismanagement and consequential losses. On the basis of the findings, there appears to be a need for government, the private sector and non-government stakeholder groups to play a more active role in promoting the concept and practice of 'good' governance by developing a broad understanding of its benefits. Only when the country embraces corporate governance standards and the attendant principles of accountability, transparency and disclosure - respected by all stakeholders - will meaningful development be attained in Zambia.

It was evident from the discussions that Zambia's macroeconomic distress is seen as being exacerbated by weak legal and regulatory systems that are not sufficiently robust to underpin an effective corporate governance framework. However, it was acknowledged that while corporate governance and accountability can contribute to better governance, they are not on their own a panacea for economic development, as political governance must provide the necessary platform for the latter's emergence. Effective corporate governance standards have the propensity to energise the investment needed for development and the optimum allocation of resources by permeating corporate culture, processes and structures at all levels. Strengthening corporate governance standards in Zambia will, ultimately, not only enhance the quality of governance, but should also improve relationship with different investors including China which is positioning itself to become the major financier of Zambia's extractive industries. Unless Zambians begin to see the benefits of corporate governance, evangelising of the concept is likely to prove peripheral and the economic changes taking place in terms of the nature of investment flows will not lead to the positive impact on widespread Zambian development that would be the case where a robust system is in place on the ground.

Having explored the views of a relatively small number of stakeholders in detail in the last two chapters, the empirical analysis now moves to consider views of a larger set of constituents, via engagement of a questionnaire survey.

CHAPTER NINE

QUESTIONNAIRE ANALYSIS

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9.1 Introduction

The current study set out to appraise perceptions regarding the nature of corporate governance and its relationship with development in the Zambian context. The previous two chapters focused on the findings from semi-structured interviews conducted in Zambia between May and July 2011. In addition - and as a way of complementing the interview findings - the current chapter presents the results from a questionnaire survey administered at the same time and in the same country. As highlighted in the methodology and methods chapter, the interviews and questionnaire survey were employed simultaneously for deliberate reasons. Other than providing large-sample complementarity with the evidence from face-to-face interviews, the questionnaire is a practical way of reaching a large number of respondents and collecting a significant amount of data in a shorter time-scale than would have been possible with interviews alone (Gillham, 2000). The chapter begins by outlining the main themes underpinning the questionnaire, the identification of respondent groups and data analysis methods. The data collected is then analysed and interpreted in detail in an attempt to provide robust evidence regarding how governance, accountability and development issues - and the inter-relations amongst them - are viewed in Zambia.

9.2 Questionnaire Development

The questionnaire was developed in the context of the extensive literature on global corporate governance and development, particularly those studies relating to Africa generally and Zambia in particular, as well as the objectives of the current research and the researcher's experience as a Zambian. Three sets of questionnaires were designed, each of which contained questions targeting a designated stakeholder group. Although many of the questions were appropriate for all stakeholders, minor modifications were made to some to accommodate stakeholder specifics. The five major target groups were: the private sector; the public sector; government; Non-Governmental Organisations (NGOs); and 'other' stakeholders. The private sector category embraces respondents from employees of the Lusaka Stock Exchange (LuSE) and representatives of companies quoted or listed on the market. The category extends to include private companies not listed on the LuSE, Small and Medium Enterprises (SMEs) and agents serving the interests of multi-national corporations that may have been listed on exchanges outside the country. The public sector category comprises State-Owned Enterprises (SOEs), while the government group incorporates government and its ministries. The NGO group is made up of all respondents that were identified as representing Non-Governmental Organisations[209] while the 'Other' stakeholder classification is made up of all stakeholder groups and individuals that would not be appropriately classified as representing one of the other four groups; this category therefore includes academicians and researchers, consultants, politicians, legislators, regulators, international organisations and other individuals not belonging to any of the four main categories. The five groups form the key stakeholder groups for the current study; the selection of these groups reflects a desire to obtain the views of those likely to have informed views on the research topic, but with divergent contexts.

The questionnaire consisted of 20 questions, structured into four parts; a demographic section and three thematic sections that address particular corporate governance, development and accountability concerns. The study adopts a closed questionnaire (self-completed) approach based on a Likert scale. As is common with such instruments, closed questions were provided, with a range of pre-determined answers offered for respondents to select from as they deem appropriate. It is commonly argued that closed questions and

[209] Such as the Non-Governmental Organizations Coordinating Council (NGOCC), Transparency International Zambia (TIZ), Diakonia Sweden-Zambia Country Office and Zambia Episcopal Conference (ZEC).

predetermined answers represent a significant issue as regards evidence originality and discovery (Gillham, 2000). Notwithstanding this point, the provision for respondents to make comments at the end of the questionnaire, or to express further opinions and thoughts not captured via responses to the closed questions should, to some extent, mitigate against limitations arising from the lack of freedom to express views freely. Respondents were given clear instructions at the beginning and throughout the questionnaire to help them navigate their way through the document. A sufficient amount of time to complete the questionnaire, together with information about the purpose of the survey, how the results would be used and a promise of anonymity and confidentiality were provided to them in advance.

The three main themes covered in the questionnaire were: (i) Zambia's corporate governance profile; (ii) the perceived association between corporate governance and development; and (iii) a conceptually driven theme of accountability. The first part of the questionnaire addressed the respondents' personal characteristics such as name, organisation, experience, job position as well as their role. The second part began with introductory questions designed to elicit background opinions about familiarity with the concept of corporate governance, as well as the Zambian codes and definitions and their relevance to the Zambian environment. The follow-up questions were aimed at exploring issues relating to the suitability of Western corporate governance codes to the Zambian situation, as well as corporate governance drivers, challenges and benefits. The second theme investigated issues relating to the perceived relationship between corporate governance and development while the third was intended to draw attention to how corporate governance and development interface with accountability. Implicitly, the corporate governance and development phenomena are viewed through the accountability framework. As pointed out in Chapter Three of this thesis, the extant literature postulates that Africa's development problems are mostly governance-related (World Bank, 1989). Similarly, a greater part of governance literature has identified accountability as a major concern and has since become central to most governance reforms (Therkildsen, 2001; Erkkila, 2007); this effectively means that discussions on governance and development-related topics - particularly in developing nations - are not complete without consideration of an accountability dimension. Correspondingly, Wu (2005) argues that the central theme of corporate governance is that of promoting accountability.

9.3 Questionnaire Administration

As outlined in the methodology chapter, the current study employs a mixed methods approach, an approach that has regained acceptability and popularity in the recent past with a significant number of studies appreciating its benefits in terms of greater understanding and validation of results.

Table: 9.1 Questionnaire Response Classifications

<table>
<tr><th>Category</th><th>Stakeholder Groups/Individuals</th><th>No. distributed</th><th colspan="2">No. of Respondents</th><th>% Responding</th></tr>
<tr><td rowspan="3">Private (PVT)</td><td>LuSE (PL)</td><td>10</td><td>7</td><td rowspan="3">20</td><td rowspan="3">31</td></tr>
<tr><td>Multinationals (PM)</td><td>10</td><td>7</td></tr>
<tr><td>Private Other (PO)</td><td>10</td><td>6</td></tr>
<tr><td>Public (SOE)</td><td>State-Owned Enterprises (SOEs)</td><td>15</td><td>8</td><td>8</td><td>12</td></tr>
<tr><td>Government (GG)</td><td>Government and Govt. Agencies</td><td>15</td><td>11</td><td>11</td><td>17</td></tr>
<tr><td>NGO</td><td>Non-Governmental Organisations (NGOs)</td><td>10</td><td>6</td><td>6</td><td>9</td></tr>
<tr><td>Others Stakeholders(OS)</td><td>Academics, consultants, researchers, politicians, legislators, regulators, international organisations</td><td>30</td><td>20</td><td>20</td><td>31</td></tr>
<tr><td>Total</td><td></td><td>100</td><td>65</td><td>65</td><td>65</td></tr>
</table>

Note: The table shows the major categories of stakeholder respondent groups, number of respondents and the percentage for each category as distributed.

A total sample of 100 potential respondents across various stakeholder groups was identified and the questionnaires were distributed accordingly. As Table 9.1 reports, a total of 65 responses were received, comprising 20 private stakeholders (PVT), 8 public state-owned enterprises representatives (SOE), 11 government representatives (GG), 6 Non-Governmental Organisations' advocates (NGO) and 20 others (OS). Most of the respondents, and the Institute of Directors of Zambia (IODZ) representatives in particular[210], indicated significant enthusiasm for the topic as it was the first research they were aware of that pushed the boundaries of the corporate governance notion beyond the boardroom into a broader context. This was also evidenced by the overwhelming number of respondents who indicated their desire to obtain a summary of the research findings by providing their e-mail addresses at the end of the questionnaire.

There is no universally-agreed definition of an 'acceptable' response rate for questionnaires (Baruch, 1999). However, Baruch believes that a 'good' response rate is desirable and a common characteristic of successful research. By international standards, the 65% achieved here is a relatively high response rate and suggests that the topic in question is of interest in Zambia. A related self-assessment questionnaire survey administered by the Africa Peer Review Mechanism-National Governing Council (APRM-NGC) in July 2009 in Zambia generated a response rate of about 40%[211,212,213]. There are several possible explanations for the relatively high response rate here. One may lie in participants' confidence in terms of confidentiality; the questionnaires were carefully prepared so as not to contain any

[210]The Institute of Directors of Zambia (IODZ) members who were contacted for the questionnaire survey were particularly excited about the topic and expressed this via their willingness to participate.

[211]The questionnaire survey was conducted to detect the general public's perceptions regarding corporates' adherence to eight governance principles: discipline; transparency; independence; accountability; responsibility; integrity and fairness; social responsibility; and efficiency and effectiveness.

[212]Baruch and Holton (2008) report an overall average response rate of 52.7% for over 1600 studies in organisational research between 2000 and 2005.

[213]Wanyama (2006) achieved a response rate of 41.4% for a similar study in Uganda while Zagoub (2011) reported a 58% response rate for a similar study in Libya.

identifying marks such as names, addresses, or occupational details with the provision of respondents' personal details being optional. Respondents were thus intended to be free to express their opinions without any unease regarding disclosure of identifying characteristics.

Another possible explanation relates to the sensitive nature of the research topic[214]; the participants might reasonably regard interviews as posing a threat in terms of what they say (inadvertently) being used against them in the future, especially after taking into account the political, governance and accountability tensions that prevailed in Zambia at the time of data collection. In this context, questionnaires have an advantage over interviews in terms of participation rates, particularly in government circles.

The third possible explanation for the high response rate may lie in the personal distribution of, and follow-ups on, the questionnaires. The selection process aimed to ensure that participants understood the basic thematic issues surrounding the topic and the role of the questionnaire, thereby making it less burdensome and, consequently, reducing the number of unusable responses to zero. Further, two major corporate governance-related conferences[215] attended by the researcher and the Zambia International Trade Fair (ZITF)[216] facilitated the distribution of questionnaires to diverse groups beyond the researcher's immediate social circle.

[214]Research on governance and accountability is politically sensitive in Africa as it often exposes governance weaknesses and creates tension between leaders and the accountability institutions (Akokpari, 2004; Ayittey, 2010).

[215]The ACCA and the Institute of Directors of Zambia organised the "Chief Financial Officers Summit on embedding strategic leadership and corporate governance to enhance finance and industry growth in Zambia: challenges and opportunities" (on 2 and 3 June 2011) at the Lusaka Southern Sun Hotel. A taxation workshop was held at the Edinburgh Hotel in Kitwe in May 2011.

[216]The Zambia International Trade Fair (ZITF) is an annual event organised by the Zambia Industrial and Commercial Show Society Limited (ZICSSL). It attracts both local (635 exhibitors in 2011) and International (98 exhibitors in 2011) exhibitors. This is a high profile event attracting high ranking Government Officials, Diplomats, Heads of International Organisations, and Senior Executives of companies.

9.4 Questionnaire Response Analysis

The questionnaire responses are analysed here by a number of key themes; these generally correspond to sub-sections of the questionnaire document. The particular categorisation of questions is intended to provide for a more rational and consistent outline of respondents' range of perspectives. The analysis starts by examining the demographic information as a way of providing context for the analysis that follows. The analysis then moves to the three thematic sites of the questionnaire, with questions based on a Likert scale format in most cases. The choices on the scale represent the extent of agreement or disagreement each respondent felt about a given question or statement. This approach was intended to facilitate accurate capture of the respondents' beliefs, ideas, feelings, attitudes, experiences and perceptions about corporate governance, accountability and development in Zambia.

9.4.1 Reliability Testing

As alluded to in the methodology and methods chapter, questionnaire pre-testing was performed as a way of enhancing questionnaire reliability. Statistical testing for reliability has become a common practice in research (DeVon et al., 2007) and this section of the chapter focuses on the reliability of the measures used in the current questionnaire. While there are different ways of statistically testing questionnaire reliability, Cronbach's alpha test[217] is the most popular approach to testing the reliability of questionnaires (Cohen et al., 2007). A rate of 70% or higher is generally acknowledged as being 'acceptable' in terms of internal consistency and reliability (Field, 2009)[218]. The results shown in Table 9.2 indicate an alpha coefficient of 88% (0.882), suggesting that the responses are internally consistent.

[217]Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. A "high" value of alpha is often used (along with substantive arguments and possibly other statistical measures) as evidence that the items measure an underlying (or latent) construct (Cohen et al., 2007).

[218]See also Nunnally and Bernstein (1994) and Faucher et al. (2003).

Table: 9.2 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items		N
0.882	0.887		56
Spearman-Brown Coefficient based on the Split-Half Test			
Cronbach's Alpha	Part 1	Value	0.862
		N	28[a]
	Part 2	Value	0.766
		N	28[b]
Correlation Between Forms			0.501
Spearman-Brown Coefficient	Equal Length		0.667
	Unequal Length		0.667
Guttman Split-Half Coefficient			0.606

Note: This table reports the results of the Cronbach alpha test for reliability and the Spearman-Brown Coefficient based on the split-half test for reliability. N = number of items

In addition to computing the alpha coefficient, a split-half test[219] was also computed; as inspection of Table 9.2 reveals results of 86.2% for the first half and 76.6% for the second half, with a Spearman-Brown coefficient of 67.7%. Although 70% is often cited as a critical value for the coefficient alpha, Kline (2000) argues that in practice values lower than 70% are acceptable considering the diversity of the constructs being measured, particularly the subjective methodology. Based on this argument the Spearman-Brown Coefficient alpha of 67% is considered tolerable here.

9.4.2 Normality Test

All questions in the survey were arranged in a Likert scale fashion, generating ordinal data that is statistically not normally distributed (Norman, 2010; Fayers, 2011), rendering

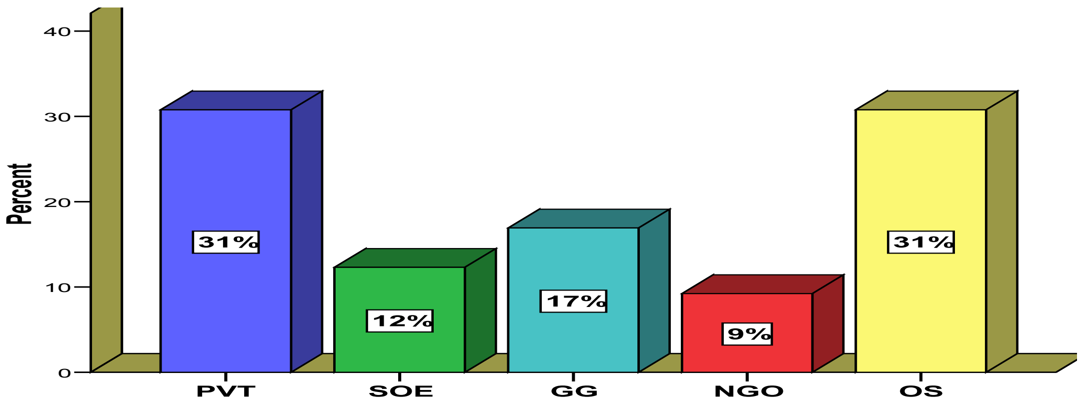
[219]The Split-half reliability test involves the correlation of one-half of a test with the other half, measuring consistency where a test is split in two and the scores for each half of the test are compared. If the test is consistent it leads the experimenter to believe that it is most likely measuring the same thing (Brown, 2010; Spearman, 1910; Cortina, 1993).

parametric tests inappropriate (Agresti, 2010). The study therefore utilises non-parametric procedures in examining the significance of the questionnaire responses, in particular the Chi-square, Mann-Whitney and Kruskal-Wallis tests. The Chi-Square statistic tests the distributional properties of the responses, while the Mann-Whitney test establishes whether two independent samples of observations are drawn from identical distributions. The Kruskal-Wallis test allows for comparison of average scores for two or more groups and again is often used when analysing ordinal data.

9.4.3 Analysis of Demographic Information

As mentioned earlier in the chapter, demographics are literally a classification of the personal characteristics of the participants. Their analysis therefore involves the interpretation of the data with a view to eliciting contextual factors that may be useful in the analysis of thematic variables (Wanyama et al., 2009). Figure 9.1 below depicts the classification of respondents into sector groupings.

Figure: 9.1 Graphical Presentations of Stakeholder Categories



Note: This graph shows the percentage of respondents in each classification. PVT - private sector; SOE - State-Owned Enterprises; GG - government and spending agencies; NGO - Non-Governmental Organisations; OS - Other Stakeholders.

Inspection of Figure 9.1 reveals that 31% of the respondents were drawn from the private sector (PVT) and another 31% from other stakeholders (OS) while the remaining 38% were divided between government (GG) (17%), State-Owned Enterprises (SOE) (12%) and Non-Governmental Organisations (NGO) (9%). The respondents from the private sector were further categorised as either: (i) Lusaka Stock Exchange (11%), representing LuSE employees and companies quoted or listed on the exchange; (ii) agents representing multinational companies (11%) and (iii) others (9%), i.e. private respondents not categorised as LuSE or multinationals.

The analysis of demographic data in Table 9.3 indicates that respondents in the 'OS' category had the most work experience, averaging 7.5 years, closely followed by the 'SOE's. The 'NGO' and 'GG' work experience averages were 6.17 and 6 years respectively while the private (PVT) group had the lowest mean of 4.95 years. However, the relatively high means for SOE and OS can be attributed to outliers (21 and 25 years respectively) in the two categories, suggesting that on average the length of work experience is similar across the five categories. The demographic information also appears to show that a great majority of respondents across all groups were in management positions, suggesting that they were involved in decision-making for their respective organisations and might have some interest in corporate governance issues.

Table: 9.3 Respondents' Work Experience

Group	*Number*	*Minimum*	*Maximum*	*Mean*	**Std. Deviation**
PVT	20	1	10	4.95	2.665
SOE	8	3	21	7.00	6.094
GG	11	1	10	6.00	2.569
NGO	6	4	10	6.17	2.137
OS	20	2	25	7.50	5.226

Note: This table details respondents' work experience in years. N is number of respondents. PVT - private sector; SOE - State-Owned Enterprises; GG - government and spending agencies; NGO - Non-Governmental Organisations; OS - Other Stakeholders

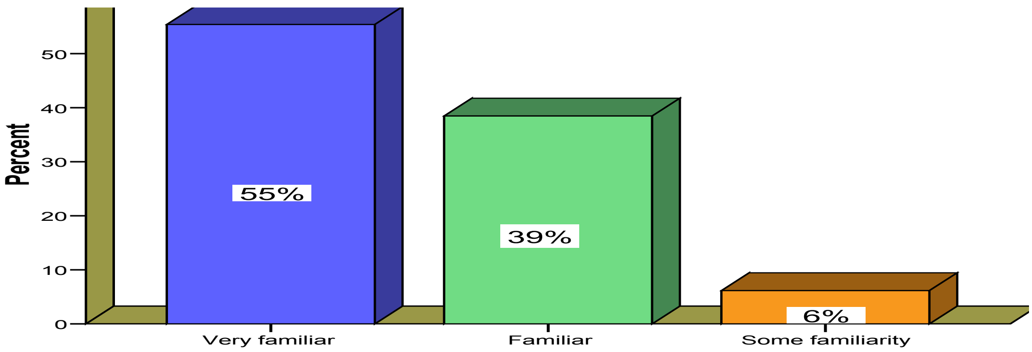
As mentioned in the methodology and methods chapter, most respondents were uncomfortable with the idea of disclosing their personal details, for reasons ranging from security to personal. Out of 65 respondents, only 45% provided their names on the questionnaire while just 65% disclosed their places of work, suggesting a degree of circumspection about the consequences of anonymity being lifted. Although the disclosure disquietude appeared to be on the lower side in the PVT, OS and NGO groups, per contra, in the GG and SOE categories disclosure of the information was the exception[220]. This evidence is consistent with the findings in the interview analysis chapter where most participants - particularly employees in government and State-Owned Enterprises - were not eager to get involved in discussions relating to governance-based topics for fear of victimisation by the elite. Having presented the demographic data, the discussion now focuses on the thematic issues of the thesis directly.

9.5 The Concept of Corporate Governance

The fourth question in the survey document was designed to probe respondents' familiarity with the concept of corporate governance. This section of the questionnaire is essential because respondents' level of familiarity with corporate governance has been shown to have profound implications for their responses to related questions (Wanyama, et al., 2009). Basic knowledge of corporate governance is thus also likely to influence respondents' opinions about its impact on development. SPSS was used to investigate the extent of familiarity with the concept of corporate governance on a 5 point Likert scale. Analysis of the results indicates that 55% of respondents claimed to be very familiar with the notion, 39% familiar and 6% familiar to 'some' extent (see Figure 9.2). This pattern in evidence implies that nearly all the respondents had some level of familiarity with the governance concept.

[220]Name disclosure: PVT - 55%; OS - 50%; NGO - 67%; GG - 18%; SOE - 25%
Place of work: PVT - 80%; OS - 75%; NGO - 83%; GG - 27%; SOE - 38%

Figure: 9.2 Corporate Governance Familiarities



Note: This figure summarises respondents' familiarity with the concept of corporate governance.

The high level of awareness with the concept can, to some extent, be attributed to the method of respondent selection employed in the questionnaire administration. The approach involved identifying participants who were likely to have at least a basic understanding of corporate governance and therefore have some degree of interest in the research. Notwithstanding the impact of inadvertent purposive sampling bias (Tongco, 2007), the findings are relevant to interpretation of the rest of the questionnaire in that they will inescapably influence respondents' opinions, attitude and interpretation of the themes. Respondents choosing 1 (very familiar), 2 (familiar) and 3 (some familiarity) were deemed as being 'familiar' while those ticking 4 (not familiar) and 5 (not sure) were considered to have been 'not familiar' with the governance concept. Categorising respondents into these two groups gives a cumulative familiarity score of 100%, (i.e. all responses were between 1 and 3) demonstrating that all respondents had some basic knowledge about the concept.

As outlined in Chapter Four, the corporate governance development process in Zambia has seen three domestic codes being developed, at different points in time and by different sponsors[221]. To investigate the extent of respondents' awareness of the three codes a question was posed that explored levels of familiarity in each case. By virtue of most respondents having some level of awareness of the concept of corporate governance, it was anticipated that they were also likely to be familiar with the codes - the results obtained from the preliminary analysis presented in Table 9.4 support this reasoning. Inspection of Panel A of the table reveals that the overwhelming majority of each class of respondent had some knowledge of all the corporate governance codes. It was expected that respondents from the PVT group were likely to be most familiar with the codes on account of the LuSE document being the first to be introduced; in contrast, knowledge of the BOZ code was not expected to be pervasive because of its sector-specific nature. Surprisingly, the 5% and 10% of respondents that were not familiar with the BOZ and IODZ codes respectively were also PVT category representatives. The cumulative familiarity frequency scores shown in Table 9.4 are high and broadly similar across groups, suggesting that though the concept is relatively new in the country, Zambians are making efforts to grasp the basic tenets of corporate governance and all the extant codes. In particular, as can be seen from Panel B of Table 9.4, the cumulative familiarity frequency scores show that all respondent groups were 100% familiar with the concept of corporate governance. Like the PVT group, all SOE, GG, NGO and OS respondents were familiar with the concept of corporate governance, but their responses differed slightly across the three codes. With regard to the LuSE code, familiarity levels ranged from 90% (OS) to 75% (PVT). For the BOZ code, familiarity levels ranged from 90% (OS and PVT) to 75% (SOE) while the IODZ code generated figures ranging from 85% (OS) to 80% (PVT).

[221]These are: the LuSE code, issued in 2005 by the Lusaka Stock Exchange; the BOZ code (2006, Bank of Zambia); and the IODZ code (2009, Institute of Directors of Zambia).

Table: 9.4 Familiarities with the Corporate Governance Notion and the Three Zambian Codes

Panel A: Knowledge of Corporate Governance Codes

Familiarity	Cumulative familiarity score	Mean ranks	K-W P-Values	Mann-Whitney P-Values									
				PVT/SOE	PVT/GG	PVT/NGO	PVT/OS	SOE/GG	SOE/NGO	SOE/OS	GG/NGO	GG/OS	NGO/OS
CGQ4A	100%[a]	1.51[b]	0.231	0.285	0.365	0.361	0.248	0.893	0.883	0.071	1.000	0.092	0.093
CGQ5A	83%	2.18	0.401	0.310	0.559	0.282	0.583	0.764	0.889	0.108	0.792	0.241	0.118
CGQ5B	86%	2.31	0.352	0.381	0.596	0.285	0.290	0.731	0.946	0.142	0.672	0.217	0.108
CGQ5C	80%	2.42	0.060	0.672	0.797	0.614	0.037*	0.861	0.888	0.025*	0.750	0.031*	0.037*

Panel B: Summaries of Familiarity with Corporate Governance and the Three Zambian Codes

Respondent Groups	Corporate Governance Concept			LuSE Code				BOZ Code					IODZ Code				
	Very familiar	Familiar	Some familiarity	Very familiar	Familiar	Some familiarity	Not familiar	Very familiar	Familiar	Some familiarity	Not familiar	Not Sure	Very familiar	Familiar	Some familiarity	Not familiar	Not sure
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
PVT	55.0	45.0	0.05	35.0	40.0	0.0	25.0	15.0	55.0	20.0	5.0	5.0	20.0	30.0	30.0	10.0	10.0
SOE	37.5	50.0	12.5	12.5	37.5	37.5	12.5	12.5	37.5	25.0	25.0	0.0	0.0	50.0	25.0	25.0	0.0
GG	45.5	36.4	18.2	27.3	27.3	27.3	18.2	18.2	36.4	27.3	18.2	0.0	9.1	36.4	36.4	18.2	0.0
NGO	33.3	66.7	0.0	0.0	66.7	16.7	16.7	0.0	50.0	33.3	16.7	0.0	0.0	50.0	16.7	33.3	0.0
OS	75.0	20.0	5.0	40.0	40.0	10.0	10.0	35.0	40.0	15.0	10.0	0.0	50.0	30.0	5.0	15.0	0.0

Note: This table shows the cumulative familiarity score, mean ranks, Kruskal-Wallis Test p-values and Mann-Whitney Test p-values. An * indicates that there is a significant difference between stakeholder groups' average response at the 5% level. An [a] indicates the variable with the highest cumulative frequency score. A [b] indicates the variable with the highest mean rank. The Likert scale used ranged from 1= very familiar to 5 = not familiar.

CGQ4A = Familiarity with Corporate Governance; CGQ5A = Familiarity with the Lusaka Stock Exchange (LuSE) corporate governance code; CGQ5B = Familiarity with the Bank of Zambia (BOZ) corporate governance code; CGQ5C = Familiarity with the Institute of Directors of Zambia (IODZ) corporate governance code. PVT = private sector; SOE = State-Owned Enterprises; GG = government and spending agencies; NGO = Non-Governmental Organisations; OS - Other Stakeholders.

Non-parametric tests such as the Kruskal-Wallis and Mann-Whitney were conducted to analyse the differences between the independent respondent groups. The Kruskal-Wallis test was used to investigate if there were any significant differences across respondent groups as a whole for each question while the Mann-Whitney test was employed to test for differences between pairs of groups. Although the choice of significance levels is subjective, the traditional 5% level has been adopted in all statistical tests in the current thesis. As inspection of Table 9.4 indicates, the Kruskal-Wallis tests show that there were no significant differences between the respondent groups regarding the concept of corporate governance and the three codes. However, the Mann-Whitney tests for differences between pairs of groups generated some statistically significant differences in relation to the IODZ code; the OS findings (where, as in other cases, a high degree of familiarity is evident) clearly dominate the results here, possibly reflecting the group's status as the only category that is not based on common characteristics. Specifically, the Mann-Whitney tests results indicate that there is a significant difference in opinion between the PVT and the OS groups, the SOE and the OS groups, the GG and OS groups, and the NGO and the OS groups, with the higher figures being generated by the OS group in each case.

While it is not clear as to why familiarity seems to be high for the OS group, one explanation would be that this category comprises respondents such as academics, consultants, researchers, politicians, legislators, regulators and representatives of international organisations who might be expected to be well versed with issues of corporate governance. Notwithstanding the lack of statistical significance, there are some notable patterns in the data; for example, the findings indicate that respondents from the PVT category were more enlightened regarding corporate governance and the local codes (in particular the LuSE code) than were their GG, SOE and NGO counterparts, consistent with the literature on corporate governance in developing nations (for example, Wanyama, 2006 in Uganda). Since the LuSE code was the first to be introduced in Zambia, it was anticipated that respondents from the private sector might have been pressurised to assimilate these corporate governance ideas and hence exert some level of influence on familiarity levels in the PVT category. As expected, the PVT respondents were familiar with the concept of corporate governance but, contrary to expectations, the results do not appear to provide the same degree of support with the three codes. The lack of statistical significance means that the levels of familiarity cannot formally be linked to the perception of poor corporate governance practices amongst certain stakeholder categories - particularly the GG and the SOE groups - as established in the interview findings. The reason for the inconsistency is not clear, but may reflect the GG and SOE participants having some awareness of the basics, but being prevented by political interference from demonstrating this in practice. In the interviews, sound levels of awareness were cited as being essential in so far as appointments to decision-making positions are concerned. For example, one respondent (SOE 02) stated that:

> "In a number of organisations, people without a basic idea of what corporate governance is are appointed to sit on boards. The IODZ should be conducting corporate governance induction programmes to orient such people. Others preach corporate governance, but do not 'walk the talk'; others think corporate governance is for the private companies only"

The above quote reveals a perception that apart from professional experience and understanding of the business and operations of the company, familiarity with corporate governance principles is seen as a necessary - but often lacking - requirement for members of boards in the private and public sector. It is commonly acknowledged that corporations play a fundamental role in the creation of wealth in an economy (Wolfensohn, 1999; Oman, 2003; and Charkham and Ploix, 2005) and that "proper governance of companies will become as crucial to the world economy as the proper governing of countries" (Wolfensohn, 1999 p. 421). In this context, directors are expected to demonstrate some levels of familiarity with the concept of corporate governance and the local codes if their companies are expected to contribute to the well-being of the Zambian economy.

9.6 Defining Corporate Governance

As Chapter Three indicated, a wide variety of definitions of the term corporate governance have been suggested; the extant literature acknowledges that defining corporate governance precisely is difficult and to date no universally-accepted formulation has emerged (Solomon, 2010). In this regard, respondents were asked to disclose the extent to which they agreed or disagreed with five possible corporate governance definitions and their significance to Zambia's development. The proposed definitions reflect a wide span of perspectives ranging from the conventional shareholder-centric approach to a stakeholder bias. The results, as presented in Table 9.5, indicate some level of agreement with all the definitions proposed. The definition in CGQ6A: "the system by which companies are directed and controlled" (Cadbury Committee, 1992 p. 13 para 2.5) collected the most scores on the basis of mean ranks - but not cumulative agreement scores - suggesting that this definition is widely held. This result is consistent with the interview findings, where, although most interviewees did not reflect a principal-agent bias, they regularly referred to the latter as a de facto definition of corporate governance, confirming the hegemony of Western perspectives on corporate governance evident in the literature review.

Table: 9.5 Defining Corporate Governance

Panel A: Corporate Governance Definitions

CGQ	Cumulative agreement score	Mean ranks	K-W P-Values	Mann-Whitney P-Values									
				PVT/SOE	PVT/GG	PVT/NGO	PVT/OS	SOE/GG	SOE/NGO	SOE/OS	GG/NGO	GG/OS	NGO/OS
6A	86%	1.63 [b]	0.158	0.233	0.162	0.861	0.353	0.014*	0.261	0.044*	0.416	0.553	0.668
6B	57%	2.66	0.918	0.747	0.546	0.699	0.770	0.332	0.944	0.734	0.337	0.733	0.685
6C	85%	1.72	0.103	0.890	0.384	0.125	0.190	0.429	0.264	0.269	0.024*	0.783	0.007*
6D	71%	2.26	0.188	0.915	0.426	0.307	0.118	0.406	0.445	0.163	0.102	0.515	0.033*
6E	91%[a]	1.66	0.592	0.649	0.259	0.503	0.481	0.614	0.396	0.976	0.137	0.556	0.230

Panel B: Levels of Agreement with Corporate Governance Definitions

Respondent Groups	The system by which companies are directed and controlled			The way in which suppliers of finance to corporations assure themselves of getting a return on their investment			A set of relationships between company's management, its board, its shareholders and other stakeholders			The system by which companies are directed and controlled			A System of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity		
	Agree	Neutral	Disagree	Agree	Neutral	Disagree	Agree	Neutral	Disagree	Agree	Neutral	Disagree	Agree	Neutral	Disagree
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
PVT	**80**	10	10	**50**	5	35	**80**	10	10	**60**	20	20	**90**	0	10
SOE	**87**	0	13	**50**	37	13	**75**	12	13	**62**	25	13	**87**	0	13
GG	**100**	0	0	**73**	9	18	**91**	9	0	**82**	9	9	**91**	9	0
NGO	**83**	0	17	**50**	33	17	**83**	0	17	**50**	17	33	**83**	0	17
OS	**85**	10	5	**50**	20	30	**90**	5	5	**85**	10	5	**95**	0	5

Note: This table shows the cumulative agreement score, mean ranks, Kruskal-Wallis Test p-values and Mann-Whitney Test p-values. An * indicates that there is a significant difference between stakeholder groups' average response at the 5% level. An [a] indicates the variable with the highest cumulative frequency score. A [b] indicates the variable with the highest mean rank. The Likert scale used ranged from 1= strongly agree to 5 = strongly disagree.

CGQ6A = "the system by which companies are directed and controlled"; CGQ6B = "the way in which suppliers of finance to corporations assure themselves of getting a return on their investment"; CGQ6C = "a set of relationships between company's management, its board, its shareholders and other stakeholders"; CGQ6D = "set of mechanisms through which outside investors are protected against appropriation by insiders"; CGQ6E = "system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity"

PVT = Private Sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS - Other Stakeholders.

The high (91%) agreement with the notion in Solomon (2010 p. 6) of governance being a "system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity" was followed by: "the system by which companies are directed and controlled" (Cadbury Committee, 1992 p. 15) (86%), "a set of relationships between company's management, its board, its shareholders and other stakeholders" (OECD, 2004b p. 11) (85%), "the set of mechanisms through which outside investors are protected against appropriation by insiders" (Nganga et al., 2003 p. 6) (71%), and "the way in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Shleifer and Vishny, 1997 p. 737) (57 %)[222]. The two definitions that appear to be more shareholder-centric thus generated least support, suggesting that such definitions do not fit well in an African context.

The literature review and interview findings presented earlier in this thesis illustrated that, in general terms, a corporate governance definition intended for Africa, should not just describe directors' obligations towards shareholders, but must also encompass wider implications for economic and social well-being. Therefore any satisfactory definition for a country like Zambia must take a wide perspective that not only protects shareholders and preserves the reputation of a company and its business, but also enhances its potential to achieve economic prosperity. As can be seen from Table 9.5, although CGQ6A had the highest overall mean ranking, opinions across respondent groups seemed to be divided, with the Kruskal-Wallis statistics proving to be insignificant in all five cases suggesting in turn that no particular definition dominates the views of a particular type of stakeholder. However, the Mann-Whitney test indicates that there were significant differences between

[222] On the basis of mean ranks, the order remains the same except CGQ6A and CGQ6E swap positions.

groups SOE and GG, and groups SOE and OS as regards CGQ6A. The test also shows a significant level of disagreement between groups GG and NGO, and groups NGO and OS regarding their opinions on CGQ6C and between groups NGO and OS on CGQ6D. Unlike in Table 9.4 above, the OS groups' results were found to dominate; however, examination of the agreement level data in Panel B reveals a consistent pattern in group responses that would suggest identifiable patterns in inter-group differences.

The questionnaire provided an opportunity for respondents to suggest their own corporate governance definitions, but only 4 out of the 65 respondents provided any, thus:

> "Open and transparent ways of communication of policies and procedures on organisations for the good of all stakeholders especially for organisations such as the mines" (PM 04)
>
> "It is a system by which institutions account for their actions. How agents remain accountable so that their own interests do not supersede the interests of other stakeholders and how the organisation engages with the community and extracts resources" (PL01)
>
> "Corporate governance is concerned with the application of resources in an accountable and transparent manner so as to benefit all stakeholders including the community and society at large. It is about value, practice, ethical principles that balance social and economic goals" (NGO 03)
>
> "Corporate governance is concerned with ensuring that the management hierarchy of organisations are transparent and accountable and are subject to checks and balances in order for them to operate efficiently and provide benefits to all stakeholders. Corporate governance is applicable to all organisations, associations, businesses and to the governance of the country as well" (OS19).

Common to all four definitions were issues surrounding accountability and transparency, the balance between social and economic goals and engagement with the community where resources are extracted for the good of all stakeholders. However, a closer analysis of the suggestions reveals that all the issues advanced in fact fall into the more inclusive stakeholder approach offered by Solomon, a definition that was included in the questionnaire document.

9.6.1 Suitability of the Proposed Definitions to the Zambian Environment

Since the inception and revival of debate on corporate governance, a Western-centric viewpoint has been assumed, although this has not always been explicitly recognised[223]. This has led some scholars, particularly in the recent past, to question the universal applicability of Western and Anglo-Saxon corporate governance codes (Okeahalam and Akinboade, 2003; Fan, 2009; Wanyama, 2009) especially in developing countries like Zambia whose level of economic development and cultural norms are at variance with those in the West norms in many key respects (Jackson 2004). Having investigated opinions about different corporate governance definitions, questions 7 and 8 were designed to extract from respondents perceptions concerning the extent of suitability of the five corporate governance definitions to the Zambian environment and the results from these are summarised in Table 9.6. The questions were influenced by debate surrounding the appropriateness to the Zambian environment of such definitions, crafted as they are on Western norms. Based on the literature review alone it would appear reasonable to predict Zambians to find the Western codes inappropriate for the local environment. However, contrary to expectations, the results obtained from the preliminary analysis suggest that while there was a range of views, all definitions generated responses on the 'very suitable' and 'suitable' side of the relevant continuum, including CGQ7E: *"The System of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity",* which received a 100% cumulative percentage suitability score and the highest mean rank across all respondent groups (see Table 9.6).

[223]See Rossouw et al. (2002); Okeahalam and Akinboade (2003); Visser (2006); Solomon (2010).

Table: 9.6 Suitability of Corporate Governance Definitions to the Zambian Environment

Panel A: Appropriateness of Corporate Governance Definitions in the Zambian Environment

CGQ	Cumulative suitability score	Mean Ranks	K-W P-Values	Mann-Whitney P-Values									
				PVT/SOE	PVT/GG	PVT/NGO	PVT/OS	SOE/GG	SOE/NGO	SOE/OS	GG/NGO	GG/OS	NGO/OS
7A	95.4%	1.49	0.788	0.817	0.404	0.835	0.679	0.324	1.000	0.908	0.363	0.206	0.918
7B	64.6%	2.23	0.405	0.165	0.514	0.127	0.266	0.379	0.663	0.596	0.249	0.654	0.337
7C	98.4%	1.60	0.088	0.236	0.812	0.014*	1.000	0.374	0.105	0.236	0.031*	0.812	0.014*
7D	80.0%	2.05	0.359	0.501	0.499	0.078	0.477	0.954	0.173	0.929	0.059	0.980	0.124
7E	100.0%[a]	1.49 [b]	0.162	0.118	0.397	0.023*	0.114	0.475	0.411	0.722	0.141	0.617	0.220

Panel B: Frequency – Levels of Suitability of Corporate Governance Definitions to the Zambian Environment

Respondent Groups	The system by which companies are directed and controlled			The way in which suppliers of finance to corporations assure themselves of getting a return on their investment			A set of relationships between company's management, its board, its shareholders and other stakeholders			The system by which companies are directed and controlled			A System of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity		
	Suitable	Not Sure	Not Suitable	Suitable	Not Sure	Not Suitable	Suitable	Not Sure	Not Suitable	Suitable	Not Sure	Not Suitable	Suitable	Not Sure	Not Suitable
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
PVT	90	5	5	70	10	20	100	0	0	80	5	15	100	0	0
SOE	100	0	0	62	13	25	100	0	0	87	13	0	100	0	0
GG	100	0	0	73	9	18	100	0	0	91	0	9	100	0	0
NGO	100	0	0	50	17	33	83	0	17	50	0	50	100	0	0
OS	95	0	5	60	0	40	100	0	0	80	5	15	100	0	0

Note: This table shows the cumulative suitability score, mean ranks, Kruskal-Wallis Test p-values and Mann-Whitney Test p-values. An * indicates that there is a significant difference between stakeholder groups' average response at the 5% level. An [a] indicates the variable with the highest cumulative frequency score. A [b] indicates the variable with the highest mean rank. The Likert scale used ranged from 1= Very suitable to 5 = Not suitable.

CGQ7A = "the system by which companies are directed and controlled"; CGQ7B = "the way in which suppliers of finance to corporations assure themselves of getting a return on their investment"; CGQ7C = "a set of relationships between company's management, its board, its shareholders and other stakeholders"; CGQ7D = "set of mechanisms through which outside investors are protected against appropriation by insiders"; CGQ7E = "a system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity"

PVT = private sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS = Other Stakeholders.

These results support the literature review and interview findings whereby it was suggested that a corporate governance definition for the Zambian environment must take into account the country's specificities. This is also consistent with respondents' levels of agreement with the proposed definition in Table 9.5 above. It was also clear from the interview findings that although most Zambians do not decisively promote a particular definition, there is a degree of consensus regarding what corporate governance rules intended for Zambia should emphasise. In this context CGQ7E, based on describing corporate governance in broad terms, fits well with the aspirations of most respondents who believed that a country like Zambia needs an inclusive approach to corporate governance. This view is generally dominant on the African continent because of its promise not only to embrace African cultural values, but also the interests of a variety of stakeholders (see Wanyama et al., 2009). The paradigm is therefore in tune with important aspects of African values, culture and society such as co-existence, collectiveness and consensus.

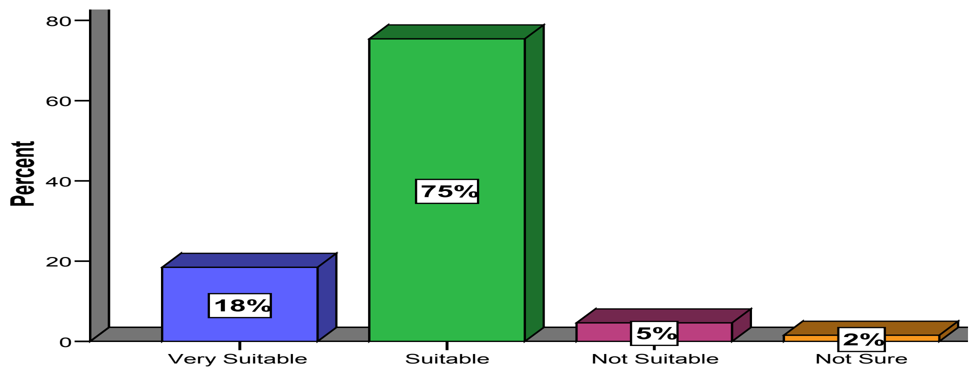
Initial inspection of Table 9.6 suggests that CGQ7E: *"A system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity"* (Solomon, 2010 p. 6) was the most popular both in terms of cumulative suitability score (column 2) and mean ranking (column 3). However, the Kruskal-Wallis test statistics (column 4) in Table 9.6 relating to differences in opinion across the five stakeholder groups do not show any significant differences, with all p-values greater than 0.05 thus suggesting consistency of opinions across the stakeholder groups. However, further analyses of bivariate inter-group differences using the Mann-Whitney test statistics indicated four significant results (PVT/NGO; CGQ7C and CGQ7E; GG/NGO; CGQ7C and NGO/OS; CGQ7C) but further analysis as presented in Panel B of Table 9.6 - Frequency Levels of Suitability of Corporate Governance Definitions to the Zambian

Environment - suggests that, as in Table 9.5 the latter findings do not represent evidence of a generalisable pattern. This apparent homogeneity in the findings is consistent with the notion outlined earlier in the thesis whereby corporate governance is viewed as a new concept in Zambia; as such it is justifiable to postulate that all categories may be going through a similar corporate governance learning process.

9.6.2 Suitability of Western Corporate Governance Codes to the Zambian Environment

The preceding discussion focused on the suitability of potential corporate governance definitions to Zambian circumstances. A more general, but equally important issue in practice given the wide influence of US/UK-generated rules and principles is the suitability of such Western corporate governance codes to Zambian conditions. As can be seen from Figure 9.3 and Table 9.7 below, respondents overwhelmingly believed that Western codes, though drafted on Western norms, are also suitable for the Zambian environment.

Figure: 9.3 Suitability of Western codes to the Zambian Environment.



Note: This figure summarises respondents' rating of the suitability of Western corporate governance codes to the Zambian environment.

Whilst only 18% of respondents perceived that Western codes are "*very* suitable", 75% believed that they are "suitable" with only 7% suggesting that the codes are not suitable for Zambian conditions. While the results were not expected - based on extant governance literature on Africa - they are in harmony with the interview findings where participants argued that if Zambia is to take advantage of the benefits of globalisation, endorsing international codes is inevitable. However, the results here also appear to be inconsistent with prior studies on Africa where Western codes are suggested as being incompatible with most African nations' values (Okeahalam and Akinboade, 2003; Jackson, 2004; Fan, 2009; Wanyama, et al., 2009), suggesting that attempts to generalise across the continent may lack empirical grounding.

Table: 9.7 Suitability of Western Corporate Governance Codes to the Zambian Environment

Panel A: Appropriateness of Western Codes to the Zambian Environment

	Cumulative suitability score	Chi-Square P-Value	Mann-Whitney P-Values									
			PVT/SOE	PVT/GG	PVT/NGO	PVT/OS	SOE/GG	SOE/NGO	SOE/OS	GG/NGO	GG/OS	NGO/OS
CGQ8A	94%	0.602	0.540	0.332	0.327	0.580	0.245	0.742	0.422	0.175	0.816	0.312

Panel B: Group Classifications - Suitability of Western Codes to the Zambian Environment

		Very suitable	Suitable	Not suitable	Not sure	Cumulative Suitability Score
Group Classification	PVT	15%	85%	0	0	100%
	SOE	25%	75%	0	0	100%
	GG	9%	82%	9%	0	91%
	NGO	33%	67%	0	0	100%
	OS	20%	65%	10%	5%	85%

Note: This table shows the cumulative suitability score, Chi-Square p-value, and the Mann-Whitney Test p-values. The lower part of the table depicts the suitability opinions by categories. An * indicates that there is a significant difference between stakeholder groups'average response at the 5% level.

CGQ8A = Suitability of Western Corporate Governance codes to the Zambian Environment. PVT = private sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS = Other Stakeholders.

Examination of the cumulative suitability scores in Panel B of Table 9.7 reveals that the pattern described above was consistent across all respondents groups with individual figures of PVT-100%, SOE-100%, NGO-100%, GG-91% and 85% for OS resulting. One possible explanation for the high figures for the PVT group is that this category comprises members that are likely to be exposed to LuSE corporate governance rules drawn heavily on Western codes. Similarly, the PVT category is also represented by agents of multinationals who by their very nature are likely to be exposed to various Western codes. For example, one questionnaire respondent represented the Zambia National Commercial Bank Plc (ZANACO), a subsidiary of the Dutch firm Rabobank which has, apart from endorsing the BOZ and LuSE codes, also adopted the Dutch corporate governance code embraced by the parent company Rabobank Group[224]. However, the high suitability scores generated by the SOE, GG, and NGO categories are less easily explained as the interview findings revealed favouring of domestic domestic or hybridised codes[225]. Notwithstanding the preceding results, the interview findings demonstrated that while most participants approved of Western codes, at the same time they appeared to deviate from supporting their wholesale adoption by advocating modifications that take into account certain issues that are specific to the Zambian context; in particular, the codes should consider the differing social and economic settings which may consequently have an impact on corporate governance.

An explanation for this evidence may lie in the interview findings where participants argued that adopting Euro- or Anglo-centric principles of corporate governance without alterations may run against the philosophy and values considered to be a fundamental characteristic of Zambian culture, resulting in an incompatibility. One other criticism commonly aimed at attempts to apply Western corporate governance to Zambia is that they fail to take account

[224]See Chapter Four for more details.

[225]Analysis of views across respondent groups regarding the suitability of Western corporate governance codes to Zambia suggests that there was no significant variation in opinions across the five categories; the Kruskal-Wallis p-value in Table 9.7 is well above the critical value of 0.05.

of the country's unique ability to interpret local experiences. Interviewees argued that in failing to recognise this, the Western corporate governance ignore the profound differences between the Western culture on which the codes were designed and the Zambian culture on which it is to be implemented. Conceptually, the debate lies rather in the differences between the shareholder viewpoint and the inclusivity approach which recognises a wider group of stakeholders, including the broader community.

9.7 Corporate Governance Drivers in Zambia

A considerable amount of literature in the area of corporate governance has suggested that while the cross-border drivers of corporate governance may be common in principle, they appear to be inconsistent in practice in different jurisdictions as they tend to be vulnerable to diverse factors ranging from levels of development to globalisation (Berglof and Thadden, 1999; Babic, 2003; Oman, 2003; McGee, 2008; Siddiqui, 2010). Although there is a lack of literature specific to Zambia, studies on Africa as a whole suggest potential drivers of corporate governance that include: corporate scandals; globalisation; economic development; foreign investment; and privatisation (Rwegasira, 2000; Charkham and Ploix, 2005; Parker and Kirkpatrick, 2005; Tsamenyi and Uddin, 2008; Arun and Turner, 2009; Wanyama et al., 2006). To uncover the Zambian stakeholders' perspectives concerning corporate governance drivers, a section of the survey document was specifically devoted to extracting this information. Seven questions reflecting the various drivers were proposed, with respondents asked to rate the extent of their impact in Zambia. The seven were: (1) corporate scandals in Zambia (CGQ9A); (2) corporate scandals elsewhere (outside Zambia) (CGQ9B); (3) integration into the global market (CGQ9C); (4) economic development (CGQ9D); (5) to attract investment (CGQ9E); (6) privatisation (CGQ9F); and (7) "just because everyone is doing it" (CGQ9G).

Table: 9.8 Corporate Governance Drivers

Panel A: Agreement with Corporate Governance Drivers

CGQ	Cumulative agreement score	Mean ranks	K-W P-Values	Mann-Whitney P-Values									
				PVT/SOE	PVT/GG	PVT/NGO	PVT/OS	SOE/GG	SOE/NGO	SOE/OS	GG/NGO	GG/OS	NGO/OS
9A	66%	2.23	0.841	0.424	0.464	0.801	0.758	0.892	0.349	0.472	0.418	0.605	0.592
9B	74%	2.05	0.698	0.540	0.578	0.898	0.496	0.738	0.685	0.279	0.906	0.156	0.555
9C	86%	1.72 [b]	0.765	0.721	0.300	0.768	0.716	0.475	0.411	1.000	0.141	0.493	0.509
9D	79%	1.83	0.809	0.869	0.287	0.817	0.340	0.503	0.945	0.600	0.549	0.855	0.644
9E	88%[a]	1.86	0.540	0.693	0.261	0.321	0.870	0.364	0.416	0.566	0.906	0.164	0.239
9F	59%	2.28	0.200	0.892	0.726	0.035*	0.724	0.690	0.046*	0.729	0.026*	0.948	0.040*
9G	57%	2.38	0.511	0.308	0.748	0.657	0.411	0.202	0.255	0.085	0.916	0.449	0.819

Panel B: Frequency - Levels of Agreement with Corporate Governance Drivers

Respondent Groups	corporate scandals in Zambia		corporate scandals elsewhere (outside Zambia)		integration into the global market		economic development		to attract investment		privatisation		everyone else is doing it	
	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral	Agree	Disagree /Neutral	Agree	Disagree /Neutral	Agree	Disagree/ Neutral	Agree	Disagree/Neutral	Agree	Disagree /Neutral
	%	%	%	%	%	%	%	%	%	%	%	%	%	%
PVT	60	40	70	30	75	25	80	20	85	15	65[b]	35	50	50
SOE	88	12	63	37	100	0	75	25	100	0	63[C]	37	50	50
GG	82	18	91	09	100	0	82	18	82	18	64[d]	36	64	36
NGO	67	33	67	33	100	0	83	17	83	17	17[bcde]	83	50	50
OS	55	45	75	25	80	20	75	25	90	10	60[e]	40	65	35

Note: This table shows the cumulative agreement score, mean ranks, Kruskal-Wallis Test p-values and Mann-Whitney Test p-values. The lower part of the table indicates the levels of agreement in terms of the seven proposed corporate governance drivers across respondent groups. An * indicates that there is a significant difference between stakeholder groups' average response at the 5% level. An [a] indicates the variable with the highest cumulative frequency score. A [b] indicates the variable with the highest mean rank. The Likert scale used ranged from 1= strongly agree to 5 = strongly disagree.

CGQ9A = "corporate scandals in Zambia"; CGQ9B = "corporate scandals elsewhere (outside Zambia)"; CGQ9C = "integration into the global market" CGQ9D = "economic development"; CGQ9E = "to attract investment"; CGQ9F = "privatisation"; CGQ9G = "just because everyone is doing it". PVT = private sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS = Other Stakeholders.

Table 9.8 compares the cumulative agreement scores for all variables. The results indicate that each of the proposed drivers of corporate governance received cumulative agreement scores of more than 50%, ranging from 88% (for CGQ9E) to 57% (for CGQ9G).

The Kruskal-Wallis test was again employed to detect differences in responses across the five stakeholder groups. The results, presented in Table 9.8, suggest that there were no statistically significant differences in opinions across the five stakeholder groups. Similarly, the Mann-Whitney tests of pairwise differences amongst groups suggest a wide degree of consensus except with regard to the driver in CGQ9F - privatisation. Here there were four cases of significant differences in average response: (PVT and NGO; SOE and NGO; GG and NGO; NGO and OS), suggesting that perceptions regarding the role of privatisation as a driver of corporate governance reflect individual backgrounds to some extent. However, analysis of levels of agreement across individual groups in Panel B of Table 9.8 fails to indicate any underlying pattern in the data.

Although respondents' opinions are divided, CGQ9E (attracting investment) and CGQ9C (integration into the global market) topped the list in terms of cumulative agreement scores while CGQ9C (integration into the global market) and CGQ9D (economic development) dominated the list as regards mean ranks. This pattern is consistent with the interview findings where globalisation, attracting investment and economic development were cited as some of the major motivators for the current corporate governance reforms in the country. Most interestingly, a great majority of respondents gave the impression that attracting foreign investment is crucial because it has the propensity to stimulate economic development and it therefore acts as the leading driver of corporate governance development in Zambia. As regards corporate scandals in Zambia, respondents believed that the influence is phlegmatic because most failures have been politicised with insufficient research linking them to weaknesses in corporate governance. The following comment from one of the questionnaire respondents summarises this point:

> "Corporate failures in Zambia have not been documented and analysed in terms of corporate governance principles therefore there has been little local support for corporate failures as drivers of corporate governance. More work needs to be done from a local perspective and experiences" (OS 12).

9.8 Corporate Governance Challenges in Zambia

Both the literature review and interview analysis presented earlier suggested that attempts to improve corporate governance practices, particularly in developing nations, have faced considerable challenges (Pascal, 2002; Babic, 2003; Wanyama et al., 2009). The next part of the survey document was designed to investigate the extent to which respondents agreed or disagreed with a series of corporate governance challenges identified in the literature and considered most likely to be of relevance in Zambia. These were: laws and regulation; cultural beliefs and values; political interference; social and ethical factors; corruption; and a lack of accountability. Inspection of Table 9.9 indicates majority acceptance that all six factors have a bearing on corporate governance practices in Zambia, but lack of accountability, corruption, laws and regulation and political interference were of most concern, with cumulative agreement scores ranging from 85% to 91% (compared to 68% and 74% for the other issues) and means of 1.51 to 1.66 (2.06 and 2.26). Prior studies have noted that corruption, accountability and weak legal systems remain strong challenges for corporate governance in other developing nations (Amoako, 2003; Brautigam and Knack, 2004; Rossouw, 2005; Wanyama et al., 2009); according to the interview findings presented earlier, the three factors pose severe challenges for corporate governance development because they are inter-linked. In particular, the legal and regulatory mechanisms mitigate against the likelihood of robust corporate governance systems emerging.

Table: 9.9 Corporate Governance Challenges

Panel A: Agreement and Mean Ranks – Corporate Governance Challenges

CGQ	Cumulative agreement score	Mean ranks	K-W P-Values	Mann-Whitney P-Values									
				PVT/SOE	PVT/GG	PVT/NGO	PVT/OS	SOE/GG	SOE/NGO	SOE/OS	GG/NGO	GG/OS	NGO/OS
10A	86%	1.62	0.385	0.441	0.150	0.672	0.083	0.436	0.773	0.469	0.406	0.918	0.385
10B	68%	2.26	0.908	0.910	0.364	0.948	0.965	0.507	0.892	0.891	0.564	0.385	0.975
10C	85%	1.66	0.509	0.601	0.165	0.522	0.504	0.083	0.362	0.334	0.659	0.469	0.857
10D	74%	2.06	0.772	0.542	0.494	0.780	0.433	0.355	0.832	0.317	0.521	0.965	0.497
10E	89%	1.51 [b]	0.452	0.608	0.122	0.945	0.470	0.054	0.777	0.278	0.343	0.389	0.765
10F	91% [a]	1.52	0.379	0.324	0.287	0.381	0.801	0.054	0.779	0.456	0.118	0.191	0.411

Panel B: Frequency – Levels of Agreement with Corporate Governance Challenges

Respondent Groups	laws and regulation		cultural beliefs and values		political interference		social and ethical factors		corruption		lack of accountability	
	Agree	Disagree/ Neutral	Agree	Disagree /Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral
	%	%	%	%	%	%	%	%	%	%	%	%
PVT	75	15	70	30	85	15	80	20	90	10	90	10
SOE	100	0	75	25	75	25	63	37	100	0	100[c]	0
GG	91	9	73	27	100	0	73	27	100	0	100[c]	0
NGO	83	17	50	50	83	17	67	33	67	33	67	33
OS	90	10	65	35	80	20	75	25	85	15	90	10

Note: This table shows the cumulative agreement score, mean ranks, Kruskal-Wallis Test p-values and Mann-Whitney Test p-values. The lower part of the table indicates the levels of agreement in terms of the proposed corporate governance challenges across respondent groups. An * indicates that there is a significant difference between stakeholder groups' average response at the 5% level. An [a] indicates the variable with the highest cumulative frequency score. A [b] indicates the variable with the highest mean rank. The Likert scale used ranged from 1= strongly agree to 5 = strongly disagree.

CGQ10A = "laws and regulation"; CGQ10B = "cultural beliefs and values"; CGQ10C = "political interference"; CGQ10D = "social and ethical factors"; CGQ10E = "corruption"; CGQ10F = "lack of accountability". PVT = private sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS = Other Stakeholders.

The Kruskal-Wallis test statistics indicate that differences in opinions across respondent groups as a whole were not significant and the Mann-Whitney test results of pairwise differences between respondent groups indicate there were no significant differences between pairs of groups.

The interview findings suggested that enforcement remains the primary problem in Zambia; the capacity of regulators to enforce compliance with the law appears to be irresolute. According to the evidence in Chapter Seven, corruption, lack of accountability, legal and regulatory frameworks and institutional capacity rank highly among the factors that affect the sustainable observation and practice of corporate governance in Zambia and it is therefore clear that the results from the two research techniques are consistent in this respect. The relevant literature discussed in Chapter Three also contains common acknowledgement of the notion that robust corporate governance requires an effective and appropriate legal, regulatory and institutional capacity (Hossain, 1995; La Porta et al., 1997; Kilgour, 1998; Nganga et al., 2003; Brautigam and Knack, 2004; Rossouw, 2005; Wanyama et al., 2009). However, regarding cultural beliefs and values (CGQ10B), comments made outwith the formal closed questions revealed some issues that had not arisen elsewhere; for example,

> "In Zambia, certain cultural values undermine good corporate governance. For instance, people view it as inappropriate to question superiors; equally, superiors also see it as ridiculous when they are challenged into accountability by juniors." (SOE 01):
>
> "Some cultural attitudes hinder corporate governance in Zambia; in some cases the chairman of the board is regarded as a "village Chief" and whatever he says must not be openly opposed. These "village Chiefs" are usually not the best. Board meetings do not discuss real issues affecting the organisation" (SOE 01)
>
> "We still have a problem when it comes to traditional beliefs and practices, for example, senior managers often refuse to be audited or guided by persons their junior in age and salary scale. Junior officers are afraid of blowing the whistle against unethical practices particularly in government and state-owned enterprises." (SOE 06)

As with the interviewees in Chapter Seven, the questionnaire respondents proposed that the key corporate governance principles be embedded into law, with a majority pointing out that political interference and patronage continue to pose a threat to robust corporate governance.

9.9 Corporate Governance Benefits

The extant literature holds that compliance with corporate governance has a wide range of benefits including increased transparency and disclosure, improved access to capital, reduced chances of conflict of interest, better systems of control leading to enhanced accountability, better allocation of resources and higher economic growth (CACG, 1999b; Shkolnikov, 2002; Oman, 2003; Prasad et al., 2003). As alluded to in Chapter Four, for a country like Zambia that depends heavily on foreign assistance, corporate governance may have a role to play in encouraging the flow of development aid (see Burnside and Dollar, 1997; Akokpari, 2004). For the private sector, robust corporate governance can provide the proper incentives for company boards to pursue objectives that are in the interest of the shareholders and provide them with both higher returns and greater security on their investment (Oman, 2003; Rahman, 2010). Given this background, the questionnaire respondents were asked to rate the likely importance of specific corporate governance benefits to Zambia. The potential benefits mentioned in the document were: (1) providing the degree of accountability necessary for the proper functioning of the Zambian market economy (CGQ11A); (2) Zambia's entry tool into the global pool of capital (CGQ11B); (3) Zambia's national economic development (CGQ11C); (4) alleviation of poverty (CGQ11D); (5) efficient allocation of resources (CGQ11E); (6) safeguarding against corruption and mismanagement (CGQ11F); (7) making Zambia attractive for investment (CGQ11G); (8) lowering the cost of capital (CGQ11H); and (9) lowering the cost of doing business (CGQ11I). Table 9.10 summarises the responses.

Table: 9.10 Corporate Governance Benefits

CGQ	Cumulative agreement score	Mean ranks	K-W P-Values	Mann-Whitney P-Values									
				PVT/SOE	PVT/GG	PVT/NGO	PVT/OS	SOE/GG	SOE/NGO	SOE/OS	GG/NGO	GG/OS	NGO/OS
11A	100%[a]	1.22 [b]	0.324	0.706	0.190	0.134	0.471	0.144	0.103	0.343	0.460	0.437	0.243
11B	97%	1.34	0.817	0.516	0.434	0.677	0.446	0.922	0.411	0.976	0.378	0.883	0.385
11C	91%	1.52	0.971	0.552	0.564	0.942	0.625	1.000	0.769	0.908	0.775	0.925	0.806
11D	72%	1.89	0.792	0.742	0.965	0.246	0.977	0.755	0.215	0.846	0.315	1.000	0.315
11E	80%	1.86	0.209	0.194	0.057	0.711	0.109	0.783	0.241	0.955	0.104	0.783	0.192
11F	94%	1.35	0.277	0.337	0.418	0.137	0.703	0.128	0.051	0.204	0.281	0.630	0.183
11G	99%	1.32	0.748	1.000	0.206	0.692	0.727	0.330	0.742	0.795	0.563	0.323	0.879
11H	68%	2.06	0.298	0.198	0.776	0.237	0.215	0.332	0.107	0.933	0.228	0.380	0.104
11I	68%	2.06	0.455	0.395	0.241	0.412	0.444	0.929	0.202	0.807	0.102	0.612	0.170

Note: This table shows the cumulative agreement score, mean ranks, Kruskal-Wallis Test p-values and Mann-Whitney Test p-values. An * indicates that there is a significant difference between stakeholder groups' average response at the 5% level. An [a] indicates the variable with the highest cumulative frequency score. A [b] indicates the variable with the highest mean rank. The Likert scale used ranged from 1= strongly agree to 5 = strongly disagree.

CGQ11A = "providing the degree of accountability necessary for the proper functioning of the Zambian market economy"; CGQ11B = "Zambia's entry tool into the global pool of capital"; CGQ11C = "one of the conditions for Zambia's national economic development"; CGQ11D = "alleviation of poverty in Zambia"; CGQ11E = "efficient allocation of resources in Zambia"; CGQ11F = "safeguard against corruption and mismanagement" CGQ11G = "making Zambia attractive for investment"; CGQ11H = "lowering the cost of capital"; CGQ11I = "lowering the cost of doing business";

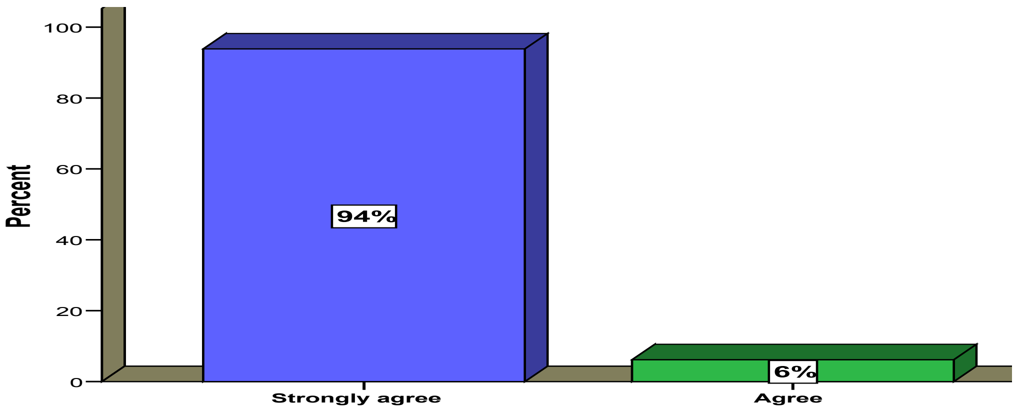
PVT = private sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS = Other Stakeholders.

Inspection of the table reveals that all nine statements were supported by a majority of respondents, ranging from 100% (CGQ11A) to 68% (CGQ11I). It is therefore evident that a wide range of potential corporate governance related benefits are seen as existing in Zambia. The Kruskal-Wallis and Mann-Whitney tests indicate that there were no statistically significant differences in terms of opinions across the five stakeholder groups. As for the notion of companies as creators of wealth, the responses demonstrated a perception that corporate governance maintains investors' confidence, as a result lowering the cost of capital. Strong corporate governance maintains investors' confidence (Shleifer and Vishny, 1997), under such circumstances company can raise capital efficiently and effectively because investors prefer to support and invest in companies that are well-governed with regard to corporate governance.

There was a perception by some interview participants that corporate governance applies only to large, market-listed companies and is of little importance since the country has only a small number of such organisations quoted on the LuSE[226]. In this context, some of the interviewees believed that the Cadbury (1992) definition of corporate governance "…the system by which companies are directed and controlled" justified this type of stand point. However, studies have documented that corporate governance cuts across all organisations irrespective of their objectives (Cadbury, 1992; Wanyama et al., 2009). A follow-up question, CGQ12, was included on whether or not the corporate governance notion relates only to companies in the private sector or should instead be extended to government, SOEs, NGOs and other smaller organisations. Inspection of Figure 9.4 indicates that there was an overwhelming response in favour of the view that corporate governance is relevant across all organisations.

[226]See Chapter Eight for details.

Figure: 9.4 Agreement Levels with the Proposition that Corporate Governance is Relevant Across all Types of Different Organisations



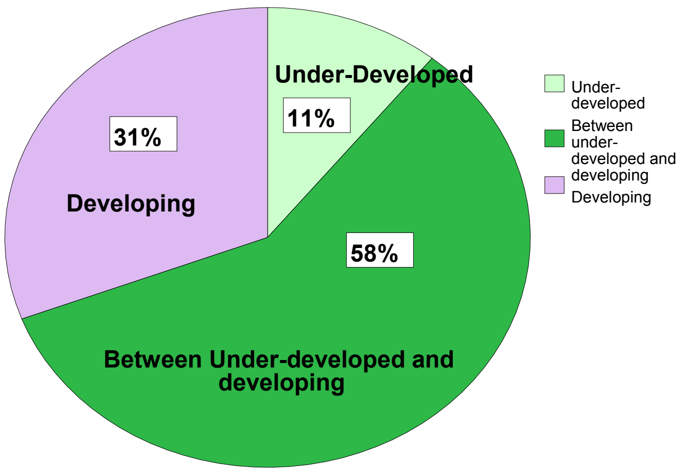
Note: This table shows the levels of agreement with the proposition that corporate governance is relevant to organisations other than corporations

With a 100% cumulative agreement score, the result suggests that Zambians believe corporate governance to no longer be confined to corporations and their owners, but to instead have become an issue even in NGOs, faith-based organisations (churches) and the other not-for profit organisations that dominate in Zambia. The emphasis on accountability, transparency, ethics and fairness appears to have made corporate governance an essential frame of reference even outside the confines of profit-oriented organisations.

9.10 Corporate Governance and Development

The central research question in this thesis relates to the potential impact of governance improvements on developing national economies (Oman, 2003; OECD, 2004a; Okike, 2007; McGee, 2008; Siddiqui, 2010). The interview findings in Chapter Eight consistently demonstrated that there is a strong perceived relationship between corporate governance and development. The next section of the questionnaire therefore attempted to find out from a larger sample of individuals the extent to which they believe such an association to exist; the idea is framed around NEPAD's conception that corporate governance is one of the conditions necessary for Africa's development. The investigation began by asking respondents (in CGDQ14) to classify Zambia in terms of development. Four stages were proposed: (i) under-developed; (ii) in transition between under-developed and developing; (iii) developing; and (iv) developed. This question is important given the growing recognition that the practice and relevance of corporate governance depends to some extent on a country's level of development (Berglof and Thadden, 1999; Wanyama et al., 2009); respondents' position on this issue may therefore influence their opinions on questions that follow.

Figure: 9.5 Classifying Zambia in Terms of Development Level

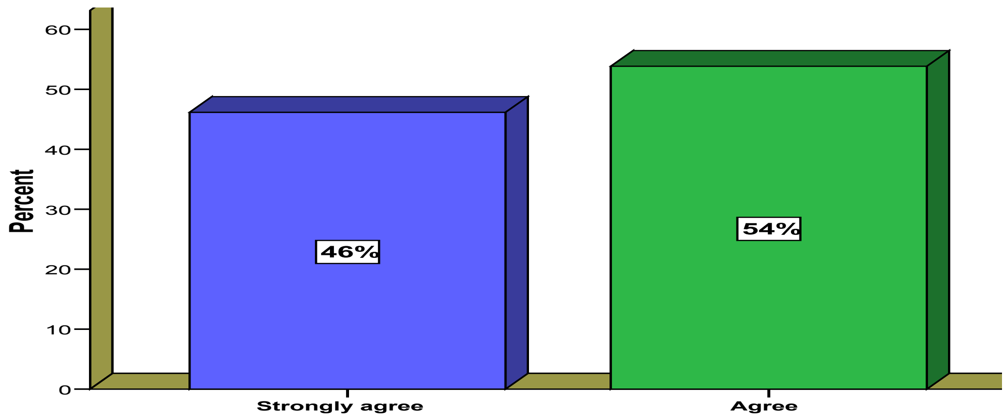


Note: This Figure shows respondents' opinions regarding Zambia's level of development

As can be seen from Figure 9.5 below, the views regarding Zambia's level of development were not unequivocal, although the majority (58%) of respondents believed that Zambia is currently in transition, from under-developed to developing nation status. However, 31% of respondents ranked Zambia as a developing nation and only 11% located the country in the under-developed category, suggesting that Zambia is viewed by the vast majority of its inhabitants as developing or on the way to becoming so. While most nations have devoted increased levels of attention to corporate governance - regardless of their level of development - there is a growing acknowledgement that corporate governance matters most for countries in transition (Babic, 2003; Oman, 2003; McGee, 2008; Siddiqui, 2010). In this context, the importance of corporate governance for a country like Zambia that has been undergoing economic metamorphosis - and that is perceived in such a way by most of its citizens - cannot be exaggerated.

This study set out with the aim of assessing the association between corporate governance and development in the Zambian context. Based on NEPAD's philosophising, the next question (CGQD15) was designed to elicit from the Zambian stakeholders the extent to which they agreed with the notion that corporate governance is one of the necessary conditions for Zambia's development. Figure 9.6 below shows that all respondents were in agreement with the NEPAD's assertion that corporate governance is one of the necessary conditions for development (46% strongly agree and 54% agree). The overwhelming response in favour of the notion suggests the reason as to why economic development was found to be viewed among the top corporate governance drivers and benefits in an earlier part of the questionnaire (see Tables 9.8 and 9.10) as well as being one of the key factors underpinning economic development (see Table 9.11).

Figure: 9.6 Levels of Agreement with the NEPAD Notion



Note: This chart shows respondents' level of agreement with NEPAD's idea that corporate governance is one of the necessary conditions for development in Zambia.

The findings in this regard are consistent with studies of developing countries such as Brazil, Chile, India, and South Africa which indicate that corporate governance matters for national development (Oman, 2003). Relatedly, the interview findings in Chapter Eight suggest that in Zambia, as in many developing nations, a strong belief exists that the elements of corporate governance often held as being most critical (i.e accountability, transparency, disclosure and fairness) are important development pillars and have been lacking in the country's search for improved economic prosperity.

Question 16 of the survey document was designed to find out what respondents thought about corporate governance's role in a range of aspects of economic development. The relevant propositions were: (i) Zambia's economy depends on the drive and efficiency of its companies (CGDQ16A); (ii) corporate governance is one of the key elements in improving Zambia's economic efficiency and growth (CGDQ16B); (iii) corporate governance plays a critical role in attracting aid to Zambia (CGDQ16C); (iv) corporate governance is an essential element in attracting FDI to Zambia (CGDQ16D); (v) corporate governance is important in helping Zambia create wealth and long-term competitiveness in the global economy (CGDQ16E); (vi) corporate governance plays an important role in creating investor confidence in Zambia (CGDQ16F); (vii) corporate governance plays a central role in helping Zambian firms access finance for their investment activities at a lower cost (CGDQ16G); and (viii) sound corporate governance practices are fundamental to Zambia's economic recovery. The results are provided in Table 9.11 Panels A and B. It should be re-iterated here that the main aim of the present study is not to formally measure the impact of these factors but is instead to establish the extent to which corporate governance is perceived as playing a role in Zambia's development by those most directly affected.

Inspection of the second and third columns of Table 9.11, Panel A reveals overwhelming agreement with all nine statements. Although there were some differences, both the cumulative agreement scores (97%) and the mean ranks (1.35) indicated strongest support for the statement in CGDQ16B ("corporate governance is one of the key elements in improving Zambia's economic efficiency and growth"). CGDQ16G "corporate governance plays a central role in helping Zambian firms access finance for their investment activities at a lower cost" ranked lowest for both the cumulative agreement scores (79%) and the mean ranks (1.94). Although the reasons for these specific outcomes are not obviously intuitive, respondents appear to be clear at a general level that corporate governance has an important role to play in Zambia's economic development. The Kruskal-Wallis test results revealed a statistical significant difference in opinions in only one case, CGDQ16H, ("sound corporate governance practices are fundamental to Zambia's economic recovery") which had a p-value of 0.045. However, the Mann-Whitney test results indicated that respondents' opinions converge in most cases, exceptions being; PVT and SOE (CGDQ16C, CGDQ16D and CGDQ16H), PVT and GG (CGDQ16E), PVT and NGO (CGDQ16B, CGDQ16E and CGDQ16H), SOE and NGO (CGDQ16G), SOE and OS (CGDQ16C and CGDQ16D), and NGO and OS (CGDQ16G). Further analysis of the responses (as per Table 9.11 Panel B) indicates that even in these cases, the majority of respondents from each class agreed with the statement in question.

Table: 9.11 Panel A: Corporate Governance and Development

CGDQ	Cumulative agreement score	Mean rank	K-W P-Values	Mann-Whitney P-Values									
				PVT/SOE	PVT/GG	PVT/NGO	PVT/OS	SOE/GG	SOE/NGO	SOE/OS	GG/NGO	GG/OS	NGO/OS
16A	92%	1.52	0.337	0.081	0.143	0.371	0.163	0.609	0.625	0.430	0.905	0.771	0.944
16B	97%[a]	1.35[b]	0.173	0.104	0.279	0.050*	0.396	0.448	0.386	0.242	0.171	0.665	0.096
16C	83%	1.78	0.273	0.041*	0.577	0.871	0.908	0.093	0.106	0.046*	0.780	0.669	0.948
16D	80%	1.88	0.172	0.013*	0.825	1.000	0.418	0.069	0.082	0.050*	0.916	0.756	0.646
16E	92%	1.55	0.061	0.075	0.042*	0.024*	0.070	0.961	0.411	0.660	0.409	0.583	0.211
16F	95%	1.49	0.688	0.219	0.574	0.445	0.988	0.543	0.742	0.219	0.811	0.558	0.445
16G	79%	1.94	0.070	0.154	0.155	0.116	0.244	0.082	0.046*	0.612	0.786	0.069	0.046*
16H	94%	1.49	0.045*	0.014*	0.086	0.041*	0.160	0.256	0.832	0.108	0.409	0.583	0.211

Note: This table shows the cumulative agreement score, mean ranks, Kruskal-Wallis Test p-values and Mann-Whitney Test p-values. An * indicates that there is a significant difference between stakeholder groups' average response at the 5% level. An [a] indicates the variable with the highest cumulative frequency score. A [b] indicates the variable with the highest mean rank. The Likert scale used ranged from 1= strongly agree to 5 = strongly disagree.

CGDQ16A = "Zambia's economy depends on the drive and efficiency of its companies"; CGDQ16B = "corporate governance is one of the key elements in improving Zambia's economic efficiency and growth"; CGDQ16C = corporate governance plays a critical role in attracting aid to Zambia"; CGDQ16D = "corporate governance is an essential element in attracting FDI to Zambia"; CGDQ16E = "corporate governance is important in helping Zambia create wealth and long-term competitiveness in the global economy"; CGDQ16F = "corporate governance plays an important role in creating investor confidence in Zambia"; CGDQ16G = "corporate governance plays a central role in helping Zambian firms access finance for their investment activities at a lower cost"; CGDQ16H = "sound corporate governance practices are fundamental to Zambia's economic recovery".

PVT = private sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS = Other Stakeholders.

Table: 9.11 Panel B: Table of Frequency – Corporate Governance and Development

Respondent Groups	Zambia's economy depends on the drive and efficiency of its companies CGDQ16A		corporate governance is one of the key elements in improving Zambia's economic efficiency and growth CGDQ16B		corporate governance plays a critical role in attracting aid to Zambia CGDQ16C		corporate governance is an essential element in attracting FDI to Zambia CGDQ16D		corporate governance is important in helping Zambia create wealth and long-term competitiveness in the global economy CGDQ16E		corporate governance plays an important role in creating investor confidence in Zambia CGDQ16F		corporate governance plays a central role in helping Zambian firms access finance for their investment activities at a lower cost CGDQ16G		sound corporate governance practices are fundamental to Zambia's economic recovery CGDQ16H	
	Agree	Disagree/ Neutral	Agree	Disagree /Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
PVT	85	15	90	10	75	25	75	25	80	20	95	5	85	15	85	15
SOE	100	0	100	0	100	0	100	0	100	0	100	0	87	13	100	0
GG	100	0	100	0	91	9	73	27	100	0	91	9	54	46	100	0
NGO	83	17	100	0	83	17	67	33	100	0	100	0	67	33	100[j]	0
OS	95	5	100	0	80	20	85	15	95	5	95	5	85	15	95	5

Note: This table shows the levels of agreement in terms of the proposed corporate governance and development factors across respondent groups.

CGDQ16A = "Zambia's economy depends on the drive and efficiency of its companies"; CGDQ16B = "corporate governance is one of the key elements in improving Zambia's economic efficiency and growth"; CGDQ16C = corporate governance plays a critical role in attracting aid to Zambia"; CGDQ16D = "corporate governance is an essential element in attracting FDI to Zambia"; CGDQ16E = "corporate governance is important in helping Zambia create wealth and long-term competitiveness in the global economy"; CGDQ16F = "corporate governance plays an important role in creating investor confidence in Zambia"; CGDQ16G = "corporate governance plays a central role in helping Zambian firms access finance for their investment activities at a lower cost"; CGDQ16H = "sound corporate governance practices are fundamental to Zambia's economic recovery".

PVT = private sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS = Other Stakeholders.

9.11 Corporate Governance and Accountability

The empirical findings reported so far in the thesis suggest that the influence of accountability on corporate governance and development has a pervasive thematic role in participants' perceptions. Consequently, based on the findings in Chapter Seven and Eight of this thesis, it appears reasonable to suggest that it is no longer a concealed *obiter dictum* that current corporate governance developments in Zambia are anchored on the desire to bring about enhanced accountability: corporate governance and accountability are inexorably linked (Oman, 2003; Lungu, 2005; Mallin, 2007; Solomon, 2010). Similarly, the extant literature on Africa blames a lack of accountability for the prolonged governance and development difficulties on the continent (IoDSA, 2002; Shkolnikov, 2002; Oman, 2003; Brautigam and Knack, 2004; Lungu, 2005). Given this context, accountability has been adopted as the theoretical base for the current study and the questions that follow were theoretically-driven. Respondents were therefore asked to express their opinion on the inter-relationships amongst the three key themes of this thesis, i.e. corporate governance, development and accountability. Based on analysis of the previous literature, the following propositions statements regarding accountability, governance and development were included in the questionnaire: (i) corporate governance rests on accountability (CGAQ13A); (ii) accountability and sound corporate governance practices underpin economic development (CGAQ13B); (iii) accountability holds the promise of bringing people to justice (CGAQ13C); (iv) accountability plays a critical role in controlling abuse of political power (CGAQ13D); and (v) accountability can contribute to better governance in Zambia (CGAQ13E). The results are set out in Table 9.12.

Both the cumulative agreement scores (in the second column - 99%) and the mean rank data in the third column place CGAQ13E at the top of the hierarchy in terms of accountability statements. The Kruskal-Wallis test in Table 9-12 (column 4) indicates that there were no significant differences in respondents' opinions among the groups except for CGAQ13E, with a p-value of 0.043. The Mann-Whitney tests show that in seven cases, differences in average responses were statistically significant, four of them relating to CGAQ13E - relatively better governance and accountability. However, the breakdown of frequencies in Panel B of Table 9.12 reveals that in virtually all cases each group of respondents agreed with all the statements in question. The one exception relates to the SOE group for CGAQ13C, the proposition relating to bringing people to justice. This outcome is hard to explain although even here half the sample supported the notion in question.

Table: 9.12 Corporate Governance, Development and Accountability

Panel A: Agreement Scores, Mean Ranks, Kruskal-Wallis and Mann-Whitney Test p-values

CGAQ	Cumulative agreement score	Mean rank	K-W P-Values	Mann-Whitney P-Values									
				PVT/SOE	PVT/GG	PVT/NGO	PVT/OS	SOE/GG	SOE/NGO	SOE/OS	GG/NGO	GG/OS	NGO/OS
13A	99%	1.26	0.508	0.119	0.904	0.859	0.655	0.152	0.215	0.262	0.939	0.630	0.648
13B	99%	1.46	0.273	0.236	0.473	0.155	0.641	0.105	0.037*	0.149	0.409	0.771	0.289
13C	79%	1.82	0.379	0.163	0.572	0.426	0.885	0.064	0.116	0.208	0.650	0.487	0.391
13D	95%	1.34	0.099	0.038*	0.331	0.244	0.541	0.311	0.022*	0.085	0.104	0.613	0.134
13E	99%[a]	1.15[b]	0.043*	0.033*	0.904	0.430	0.959	0.052*	0.048*	0.022*	0.460	0.936	0.429

Panel B: Frequency – Corporate Governance and Development and Accountability

Respondent Groups	corporate governance rests on accountability		accountability and sound corporate governance practices underpin economic development		accountability holds the promise of bringing the people to justice		accountability plays a critical role in controlling abuse of political power		accountability can contribute to better governance in Zambia	
	Agree	Disagree/ Neutral	Agree	Disagree /Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral	Agree	Disagree/ Neutral
	%	%	%	%	%	%	%	%	%	%
PVT	100	0	100	0	80	20	95	5	95	5
SOE	100	0	100	0	50	50	87	13	100	0
GG	100	0	100	0	100	0	91	9	100	0
NGO	100	0	100	0	83	17	100	0	100	0
OS	95	5	95	5	75	25	100	0	100	0

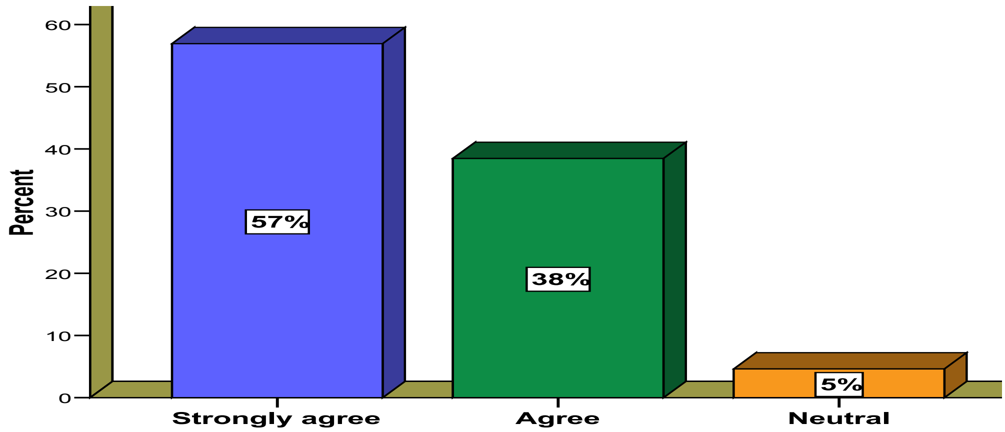
Note: This table shows the cumulative agreement score, mean ranks, Kruskal-Wallis Test p-values and Mann-Whitney Test p-values. An * indicates that there is a significant difference between stakeholder groups' average response at the 5% level. An [a] indicates the variable with the highest cumulative frequency score. A [b] indicates the variable with the highest mean rank. The lower part of the table summarises the levels of agreement in terms of the proposed corporate governance and development and accountability across respondent groups. The Likert scale used ranged from 1= strongly agree to 5 = strongly disagree.

CGAQ13A = "corporate governance rests on accountability"; CGAQ13B = "accountability and sound corporate governance practices underpin economic development"; CGAQ13C = "accountability holds the promise of bringing the people to justice"; CGAQ13D = "accountability plays a critical role in controlling abuse of political power"; CGAQ13E = "accountability can contribute to better governance in Zambia"

PVT = private sector; SOE = State-Owned Enterprises; GG = Government and spending agencies; NGO = Non-Governmental Organisations; OS = Other Stakeholders.

As participants indicated a strong link between corporate governance, development and accountability, a follow-up question, CGAQ17, was designed to detect the extent to which corporate governance difficulties in Zambian were associated with a lack of accountability. Inspection of Figure 9.7 reveals that 57% strongly agreed and 38% agreed with the hypothesis; the remaining 5% took a neutral stance. This result is consistent with much of the evidence reported so far in this chapter and also supports the interview findings. For example, the majority of respondents to question CGAQ13 supported the notion that accountability can contribute to better governance and development in Zambia; it is clear that the respondents believe issues of corporate governance and development to be rooted firmly in accountability.

Figure: 9.7 Levels of Agreement with the Notion that Corporate Governance Difficulties in Zambia are Associated with a Lack of Accountability



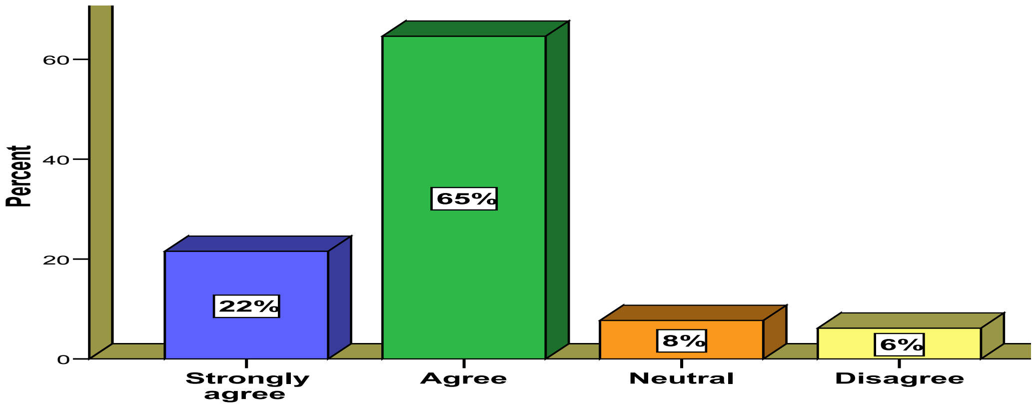
Note: This table shows levels of agreement with the notion that corporate governance difficulties in Zambia are associated with a lack of accountability

9.12 Corporate Governance and FDI

Traditional theories of foreign direct investment (FDI) hold that there is a strong association between levels of corporate governance and the inward flow of FDI (CACG, 1999b; Prasad et al., 2003). This explanation is especially relevant for developed countries where there is strong evidence that corporate governance influences investment levels (Naidoo, 2002:

Ajayi, 2006). A section of the questionnaire therefore focused on the extent to which respondents perceived impaired corporate governance and a lack of accountability as impinging on the flow of FDI to Zambia. As can be seen in Figure 9.8 below, more than three quarters of the respondents (87%) acknowledged the influence of corporate governance on FDI flows to Zambia. However, it should be noted here that in the interviews, while theoretically acknowledging this association, the interviewees also stated that in the Zambian context the notion is only relevant in so far as investment in existing projects was concerned - for example, partnering with local entrepreneurs (in joint ventures and mergers). The interviewees argued further that most of the overseas investors have been 'lured' into new projects by incentives such as tax-breaks and government subsidies, and not corporate governance itself.

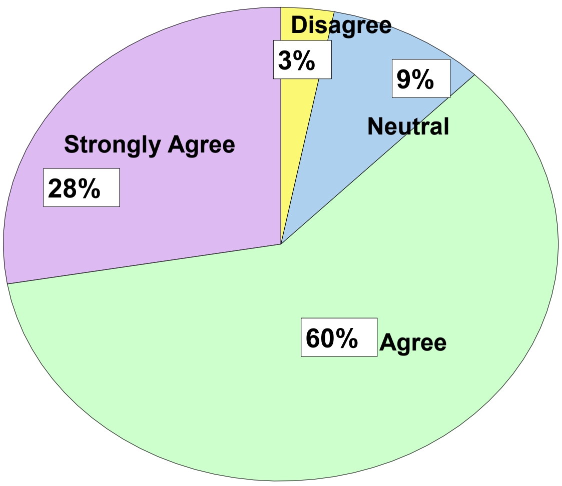
Figure: 9.8 Corporate Governance and the Flow of FDI to Zambia



Note: This table shows levels of agreement with the notion that corporate governance affects the flow of FDI to Zambia

As outlined in Chapter Eight, although it is commonly argued that corporate governance has the propensity to lower the cost of doing business (Oman, 2001; Claessens, 2003; OECD, 2004a) and promote accountability and disclosure extent (Solomon, 2010), there appears to be strong evidence in Zambia that the increased flow of FDI, particularly in green field projects, is influenced by factors other than corporate governance. This perception suggests that while the participants involved do not dispute the theoretical assumption that there is a relationship between corporate governance and FDI, they strongly believed that in a Zambian context the link is not of primary importance. Similar sentiments were detected from respondents regarding corporate governance and development aid. Zambia, like many developing countries in Africa, depends on development aid for much of its economic resource base (World Bank, 2009b). According to Odén and Wohlgemuth (2011), between 2000 and 2005 aid accounted for about 43% of the total Zambian government budget. However, in the recent past there has been some friction between the government and the donor community over issues of governance and accountability (Silwamba, 2009). Given this context, and related issues highlighted in the literature review here, a specific question (CGAQ19) was designed to capture stakeholder views on the relationship between corporate governance and the flow of development aid to Zambia. Inspection of Figure 9.9 indicates that 88% of respondents agreed with the notion that corporate governance and accountability influence the flow of development aid to Zambia, with only 3% disagreeing.

Figure: 9.9 Corporate Governance and Development Aid in Zambia



Note: This figure indicates levels of agreement with the notion that the lack of corporate governance and accountability affects the flow of development aid to Zambia.

The results here are consistent with the interview findings and support previous research regarding the issues concerned (see World Bank, 1998). The findings also corroborate the strong suggestion in the extant literature whereby development partners are increasingly using measures of governance and accountability when deciding on the allocation of development aid[227]. Similarly, some international finance organisations are partnering to support corporate governance projects in Zambia (Odén and Wohlgemuth, 2011), while NEPAD has also been supportive of rewarding countries that adhere to good governance principles. Given this background, it is perhaps unsurprising that a significant amount of development aid targeted at Zambia has been withheld[228] on account of governance and accountability issues (see Chapter Eight).

9.13 Conclusion

This chapter set out with the aim of assessing the significance of corporate governance for economic development in Zambia via a questionnaire survey. The objective of data collection using this method is not the actualities - which are rather difficult to obtain - but is instead stakeholders' subjective perceptions regarding the role of corporate governance in Zambia's future development. As outlined in the methodology chapter, stakeholder views in this case have the propensity to draw out individual experiences as people experience social reality differently. In this case, data was drawn from five stakeholder groups: the private sector (PVT); State-Owned Enterprises (SOE); Government and spending agencies (GG); Non-Governmental Organisations (NGO); and Other Stakeholders (OS). The five groups were selected so as to reflect the country's major stakeholders and obtain a diverse but balanced set of views. As subjective perceptions cannot be fully characterised by statistical

[227]For example, the World Bank, the European Union and Irish Aid have started explicitly examining corporate governance and accountability in relation to their development aid programmes (Burnside and Dollar, 1997; Presbitero, 2008; Kaufmann and Kraay, 2010).

[228]The Swedish government and other key donors withdrew their support from the Ministry of Health in Zambia over the misappropriation of about K27 billion (£3.5 million) donor funds (Sinyangwe, 2009).

analysis of numerical data, this chapter has deliberately not presented a detailed array of quantitative results, but has instead attempted to provide an overview of the key themes and patterns in responses, in a way that facilitates complementing of the interview findings presented in Chapters Seven and Eight. To this end, three thematic areas were covered in the survey document; corporate governance, development and accountability.

The findings show that although the concept of corporate governance is at a nascent stage in terms of its recognition as a key issue, a large majority of questionnaire respondents from all groups had some familiarity with the concept as well as the three local corporate governance codes. While those surveyed generally applauded the shareholder-centric approach, respondents were biased towards a more inclusive *modus operandi* for the Zambian context, a finding common in most African countries. Economic fragility, corruption, lack of accountability and the need to raise finances both at firm and country levels were seen as being some of the major drivers for corporate governance reform in Zambia. However, there was a perception that the latter faces a plethora of challenges ranging from globalisation, weak legal and regulatory systems and a limited capacity to enforce compliance. While respondents assented to the theory that corporate governance influences the flow of FDI and development aid, the findings suggested a belief that the relationship is weak in practice in Zambia, especially as regards FDI. The findings also reveal a widespread opinion that 'boilerplate' Western corporate governance principles are bound to disappoint those hoping for a domestically-relevant framework, one that accounts for the philosophy and values of Zambian society in terms of social and economic development. However, and most importantly given the aims of the present study, the findings reported here clearly support the notion that corporate governance matters for national development; this result has important implications for developing nations like Zambia, in the sense that improved corporate governance offers the hope of increased financial capital inflows both to firms and the nation at large, with the enhanced accountability and transparency leading ultimately to economic prosperity.

Having completed the presentation of the empirical findings, the next chapter concludes the thesis by summarising and synthesising the main results and implications thereof, as well as acknowledging the study's limitations and making suggestions for further work in the area.

CHAPTER TEN

SUMMARY AND CONCLUSIONS

CHAPTER TEN

SUMMARY AND CONCLUSIONS

10.1 Introduction

The current study set out to investigate the perceptions of Zambians regarding corporate governance's implications for the country's economic development. The approach drew on the notion that linkages exist between corporate governance systems and development outcomes, in developing nations in particular. This chapter draws together the main thematic issues covered in the thesis, summarises the findings, outlines the study's limitations, and makes suggestions for both further research and policy responses based on the thesis's contents.

The study employed interviews and a questionnaire survey to examine and analyse the perceptions of a demographically-diverse stakeholder base in Zambia. Adopting accountability as a theoretical base, the study has drawn attention to the potential ramifications of its absence in decisions regarding the allocation of national resources to achieve desired development goals. Through the accountability schema the study raises debates concerning the importance of 'good' corporate governance practices and accountability, and whether or not they have been given adequate attention in both political and economic reforms intended to streamline the country's development fortunes. The idea was conceptualised following the declaration of one of Africa's home-grown development frameworks, the New Partnership for Africa's Development (NEPAD), that corporate governance has now emerged as one of the 'necessary conditions' for Africa's development. The key finding of the present study is that Zambians, unreservedly, believe that corporate governance has implications for the country's development and the notion should be considered seriously, particularly via the enhancement of greater accountability and transparency to improve the allocative efficiency of resource use and inward capital flows.

10.2 Summary of the Research

The main objective of the study was to examine the potential role of corporate governance in facilitating Zambia's future economic development; specifically, the study has endeavoured to examine and evaluate key stakeholder's perceptions regarding the linkage between corporate governance and development in Zambia in the context of the broad accountability notion. To achieve this, the study sought answers to the following research questions:

- What is the perceived current state of corporate governance in modern-day Zambia?
- To what extent do the people of Zambia understand effective corporate governance as a necessary condition for the country's economic development?
- What role do Zambians see for accountability in aiding attempts to better governance practices and economic performance?

An attempt was first made to contextualise the research questions in the first half of the thesis, before the issues were examined empirically using a series of semi-structured interviews, and a large-scale questionnaire survey. This thesis consists of ten chapters. Chapter One provided the introduction to the study in terms of the research topic, focus, objectives and questions as well as outlining the structure of the rest of the thesis. Chapter Two then outlined some background information about Zambia, the site of the current study, regarding its geographical location, relevant history and political, economic, education, legal and regulatory environments. The chapter was designed to offer a synopsis of the country that would help explain the extant governance situation in the country. The literature review was divided into two chapters. Chapter Three discussed the literature on global aspects of corporate governance in so far as it relates to African and Zambia. Given the continent-wide focus of many of the analyses, this material was designed to highlight corporate governance views that have been expressed about Africa that have direct implications for Zambia. The chapter also covered the generic theories that have played a significant role in shaping contemporary corporate governance. Chapter Four focussed on corporate governance literature specific to Zambia, in the context of three different economic governance episodes and the driving force behind reforms, institutional capacity and the country's own experience of corporate failures. Chapter Five discussed the accountability theoretical base adopted for this study, upon which the governance issues affecting the country's development were conceptualised. The chapter also touched on a broadened accountability which appears to have won the hearts of many Africans as it fits with the continent's cultural context and societal dynamics whereby people are assumed to have a responsibility to each other in their daily and business lives. The next chapter, Chapter Six, outlined the research methodology and methods on which this research project is anchored. The choice of an interpretive methodology to aid understanding of perceptions about the link between corporate and economic progression was explained. The role of this methodological approach in influencing the selection of specific research tools was then outlined. Chapters Seven, Eight and Nine focussed on the analysis of results, the summaries of which the discussion now turns to.

10.3 Research Findings

The questions posed in the interviews and questionnaires were divided into three thematic areas: (i) the corporate governance notion in the Zambian context; (ii) the link between corporate governance and Zambia's economic development and; (iii) the role of accountability in the context of (i) and (ii).

10.3.1 The Corporate Governance Experience in Zambia

There was wide agreement amongst the interviewees that the notion of corporate governance is relatively new in Zambia and that the majority of Zambians were still struggling to reach a full understanding of what the concept relates to. This lack of awareness made it difficult to appreciate the benefits of 'good' governance, both at corporate and state levels; indeed a small group of respondents harboured the misconception that the implications of corporate governance related only to the running companies and did not see the relevancy to the debate of the views of those who were not business-oriented or were not involved in company management. This simplistic view was consistent with the findings of prior research on corporate governance elsewhere in Africa.

While there could be several explanations for the lack of awareness and rigidity in embracing the notion, one possible rationale is that Zambia has had long experience of state capitalism, characterised by an aura of secretiveness and patronage; this culture is prevalent even today in most Zambian companies and society at large. The evidence suggested that this was a particularly big issue in the public sector where some individuals still believe that SOEs are a de facto extension of the ruling party, with little external accountability in any meaningful sense. The problem is seen as being further compounded in Zambia by high levels of political interference in SOEs in terms of board domination and political appointments. One of the implications of the evidence in this regard is that corporate governance awareness programmes in Zambia must change the mind-sets of those who act as the architects of corporate culture, to reorient them with contemporary governance principles and the tenets of a free market economy in a globalised environment. In this regard, participants proposed that the IODZ's corporate governance sensitisation programmes should focus on cultural issues so that people begin to see and appreciate the multi-faceted importance of 'good' corporate governance.

Interviewees were quick to point out that the corporate governance landscape was beginning to change and some improvements have occurred, especially in the private sector. This was evidenced by the introduction of three local corporate governance guidelines: (i) the Lusaka Stock Exchange (LuSE) code in 2005, designed for companies quoted or listed on the exchange; (ii) the Bank of Zambia (BOZ) code in 2006, specifically tailored for the financial sector and; the Small and Medium Enterprises (SMEs) code in 2009, focussing on small, mainly family-held companies which are the largest in terms of numbers. In all three codes, the enhancement of transparency and accountability has been accorded central importance. Similarly, in the government and the public sector, although the process has been very slow, there are signs that the significance of the notion is starting to be appreciated. The establishment of a governance secretariat under the Ministry of Justice and the endorsement of the African Peer Review Mechanism (APRM) were noted as examples of the government's effort to improve corporate governance practices within its own circles and for the country as a whole.

10.3.2 Defining Corporate Governance

Although the term corporate governance is widely used in today's vocabulary, no single definition has yet emerged as being universally superior. The interview findings and questionnaire results both indicated Zambian participants' familiarity with the 'Cadbury' definition - i.e. "the system by which companies are directed and controlled". The Cadbury formulation appears to have won a lot of support despite it being one of the earliest attempts to define corporate governance. This finding provides some support for the conceptual premise that there is a lack of research regarding a corporate governance approach reflective of the developing world's context. The result also offers support for prior studies that have pointed to the hegemony of Western theories and literature on corporate governance. The empirical evidence presented here suggests that the combination of a lack of original research and the influence of outsiders has influenced most African countries to adopt a "take it as given" approach without much thought about the realities of day-to-day circumstances. This trend perhaps reaffirms prior concerns cited in the literature regarding the lack of an accurate description of the scope of the term 'corporate governance', although its essentiality appears to be well grasped by many in Zambia. The pattern also confirms that the surge in corporate governance definitions have not particularly ameliorated the lack of clarity surrounding the concept. However, it was clear from follow-up questions that, despite participants citing a definition that was theoretically biased towards the agency perspective, in practice they subscribe to a broad view with wider implications for the country's economic and social well-being. This viewpoint was framed on the premise that a corporate governance paradigm concerned only with ensuring that firms are run in the best interests of the suppliers of capital does not fit well with the Zambian environment where the market for corporate control is suspect. Although there is a significant strand of literature that supports the view that the role of the firm in society is explicitly to create wealth for the owners - and thus should focus on achieving this objective - the current research provides evidence that in the Zambian context, participants were more comfortable with a system that concerns itself with creating a balance between economic and social goals, guaranteeing the efficient allocation of resources in an accountable and transparent manner without ignoring responsibilities to non-shareholding stakeholder constituents including the environment and society in general. This belief is closely related to Solomon (2010)'s view of corporate governance - "*as the system of checks and balance, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity*" - which takes on board corporate social responsibility matters that have been an issue in Zambia, particularly in the aftermath of privatisation reforms that saw the state surrender major SOEs to the private sector. In fact, some participants believed that corporate governance was a de facto mechanism for enforcing corporate social responsibility with the two being inseparable.

10.3.3 Suitability of Western Codes in the Zambian Environment

On the basis of the literature review presented here, it would appear reasonable to have suggested that Zambians might reject Western codes as being at odds with the dictates of the country's culture. To the contrary, the interview findings in fact suggested that the dimensionality and growing interdependence of companies and economies as espoused by globalisation necessitated uniformity in corporate governance standards. Similarly, over 80% of questionnaire responses indicated that, although based on a Western prototype, the conventional formulation of corporate governance was equally suitable for the Zambian environment. Although the questionnaire responses, in terms of their preference for the definition and consequential suitability of (Western) norms for the Zambian environment appear to run counter to expectations, the interviews, where participants were able to discuss the issues in depth, indicated overwhelming support for an inclusive approach based on stakeholder assumptions sympathetic to Zambian cultural values of co-existence, collectiveness and consensus. Nonetheless, all three extant Zambian codes are essentially an abstraction from international codes. Participants also argued that in the new global economy, the national-focussed approach is becoming out of date, hence the need for international governance standards and guidelines. The questionnaire method's inherent limitation in terms of follow-up questions made it impossible to further probe respondents on why they believed Western codes were also relevant in Zambia. However, the interview findings again offered a potential explanation whereby in the Zambian context, people are more interested in codes that go beyond the principal-agent dichotomy to include a wider community. Similarly, participants expressed concerns about how Western codes would *comme il faut* the Zambian milieu which are underpinned by deeply-rooted cultural traditions. With the debate on suitability dividing participants into two groups, it was evident that a compromise based on a hybrid approach comprising best practices from local and international codes might have genuine potential in Zambia.

10.3.4 Compliance

The interview findings established that Zambia lacks legislature to deal with specific corporate governance issues, resulting in the absence of formalised compliance mechanisms especially for organisations outside the scope of the LuSE and BOZ guidelines. This evidence should be of material concern for Zambian regulators as the organisations outside the LuSE and BOZ represent the majority of Zambian firms, particularly the SMEs, which are closely-held and family-managed. Prior studies on governance in Africa indicate that the informal nature of closely-held businesses poses huge challenges for corporate governance practices. The IODZ code designed for such organisations has not had much impact as the code is more of a "sensitisation" document than an observance ordinance. Whilst the debate has focused on possible ways of enforcing corporate governance: "comply-or-explain"; "comply-or-else"; and the "hybrid" approach, all three Zambian codes adopt a "comply or explain" methodology. The participants in the present study were divided on the question of the best mode of enforcement: both the interview findings and questionnaire results indicated that the majority of participants favoured a method embracing both compulsory and voluntary approaches with the core principles embedded in the Companies Act. This idea was forged on the understanding that the flexibility resident in the "comply or explain" design - though popular in developed economies, particularly in Europe - was not sustainable in Zambia, a country that has no reputation for strong corporate governance.

10.4 Corporate Governance Drivers in Zambia

The evidence in the prior studies reviewed in Chapters Three and Four of this thesis indicates that corporate governance reform drivers in most developing nations are, to some degree, inconsistent with those pertaining in developed countries. This finding is consistent with prior literature where, for example, Rabelo and Vasconncelos (2002) argue that variances exist in the role of and need for corporate governance in developing and developed nations, primarily in terms of political, economic and cultural aspects. Both the interview findings and the questionnaire results supported the idea that economic efficiency, attracting local and foreign investment, globalisation, external pressure, economic liberalisation and privatisation, local company failures and corruption are key factors in the debate regarding corporate governance reform in developing countries such as Zambia. The evidence from the interviews pointed to donor pressure (in so far as it related to external financial assistance) and development aid as having played a pivotal role in improving governance practices and accountability.

Interview participants pointed to corruption as one of the single greatest impediments to corporate governance and economic development in Zambia. There was evidence that the complexities associated with corruption are seen as making it difficult to deal with corporate governance failings via the legal system, leading to the need for alternative methods of enhancing practices. The Zambians consulted in this study believe that the emergence of globalisation - and its inherent free market economic assumptions - mean that Zambia risks being side-lined economically if the country does not move at a similar pace to the rest of the world to adopt the ‘good’ governance behaviour that attracts and protects investment. While the country has had its own experience of corporate failures, the evidence here shows that the devastating consequences of corporate governance failures, particularly in the US, the UK and elsewhere, have provided a persuasive rationale for taking corporate governance seriously in Zambia. However, lack of research - and a failure to document local corporate governance failures and their implications - has made it problematic for many Zambians to appreciate fully its practical benefits.

10.5 Corporate Governance: Implications for Zambia's Development

This section summarises the themes and related findings from the empirical analysis that attempted to provide answers to one of the key research questions of the current study: "to what extent do the people of Zambia understand effective corporate governance as one of the necessary conditions for the country's economic development?" A large and growing body of literature has revealed that there is a strong relationship between corporate governance and economic performance. Similarly, the NEPAD has acknowledged corporate governance as one of the necessary conditions for Africa's development revival. Empirical Chapters Eight and Nine of this study therefore directed significant attention to exploring participants' perceptions regarding this *magnum opus*.

There was overwhelming evidence from both the interviewees and the questionnaire respondents that the quality of corporate governance is seen as critical to Zambia's future economic health. For example, the interviewees argued that the allocation of resources across the nation continues to be questionable precisely because of the absence of transparent and accountable governance systems. This finding was supported by the questionnaire results where 100% agreement was found with the view that corporate governance has a strong and direct influence on the country's economy. The interviewees further suggested that a reputation for robust corporate governance in a country instils greater investor confidence and unblocks the flow of investment. The participants disclosed that issues of accountability and transparency have proved particularly controversial in Zambia because corporate governance has not been taken seriously by those charged with the responsibility of making decisions on behalf of others. In this context, the majority of questionnaire respondents characterised Zambia as a country in economic transition and argued that, at such a stage, the nation's exhaustible resources needed to be applied in a fair and open manner. This finding coincides with the results of prior studies in other developing nations which suggest that the fundamental features of accountability and transparency as embedded in corporate governance make the concept more significant for countries in transition.

10.5.1 Properly Managed Companies as the Drivers of Wealth

The empirical evidence presented in this thesis suggests that there is a visible link between corporate governance and economic performance through the notion that "properly managed companies are the drivers of wealth" in a nation's economy. According to the majority of participants, this notion is centred on the idea that companies play a pivotal role in the economy by empowering citizens through employment while behaving responsibly and contributing to the country's treasury via taxes. However, the participants' belief was that this can only be actualised if companies are directed and controlled with a view to making positive contributions to society in various areas of their activity. There was a strong conviction amongst the interviewees that companies can improve workers' welfare and their communities, behave ethically, contribute to society at large and still achieve their objectives; in short, corporate governance should become an integral part of the wealth creation process. This thinking fits well with Solomon's view of corporate governance outlined earlier. As mentioned in the literature review, companies operating in African milieus are normally pressured to pursue a communitarian philosophy to fill gaps in social and health services and infrastructure for their employees, activities that are traditionally a responsibility of the government. The findings here are consistent with prior studies on Africa which indicate that multinational companies operating on the continent often get involved in social welfare programmes in the communities in which they operate and make a contribution to broader societal goals.

In this regard, the quality of governance in Zambian companies is of absolute importance, not only to individual companies but to the entire community and the economy at large. Participants noted, however, that it was erroneous to expect companies' accountability levels to grow in the absence of a strong system of corporate governance regulation. Here, the findings demonstrate that the de facto governance arrangements in the country were problematic and fraught with difficulty in terms of actualising the well-theorised notion. For example, participants argued that in the copper-centric Zambian economy, the mining sector accounts for over 70% of export earnings, but because of poor governance the entire sector only accounted for about 10% tax to the national treasury. This mismatch raises obvious questions about the lack of a strong sense of societal accountability in the nation's mining companies. Particular reference was made to a chain of scandals relating to devious revenue declaration, tax evasion, inflated costs, unfair transfer pricing systems, manipulated copper export data, unfair hedging patterns, externalisation of revenues and secret negotiations of concessions, all designed to conceal revenues from taxation and consequently defeating the spirit of the notion. Research participants blamed certain government officials and senior managers in the sector for designedly choking off corporate governance and accountability by pursuing their personal interests.

Participants pointed out that some of the issues giving rise to inappropriate conduct by corporations were rooted in the opaque manner in which development agreements were negotiated between government representatives and investors. Summing up this discussion, one interviewee - a Member of Parliament - argued that the mining sector in Zambia has the potential to create much-needed wealth but, directly because of questionable corporate governance practices, the sector was poorly managed with a predictable plethora of problems. In this context, the empirical findings presented here regarding stakeholder perceptions suggest that while the aim to improve governance may have been theoretically sound, in Zambia the outcome was never likely to be optimal.

10.6 Accountability

Chapter Five provided an extensive review of the accountability literature, in particular its relation to corporate governance and development in environments such as Zambia. This section summarises the interview findings and questionnaire results as regards the significance of accountability in the governance and development paradigm in the Zambian context. The findings discussed here attempt to provide answers to the third (theoretically driven) research question: *"What role do Zambians see for accountability in aiding attempts to better governance practices and economic performance"?* The questionnaire analysis results corroborated the interview findings in suggesting that the strength of corporate governance is seen as being located in accountability, with significant implications for Zambia's development flowing from this. In this context, the study views the problems of governance in Zambia as a de facto accountability *mea maxima culpa*. The empirical findings suggest that Zambians believe accountability to be the cornerstone of good governance, which is in turn the backbone of meaningful development. Here, interview participants held accountability shortfalls responsible for most governance and development-related difficulties experienced in Zambia, consistent with prior research findings in other developing nations. Ninety-nine per cent of questionnaire respondents agreed that corporate governance rests on accountability but, equally, accountability was viewed as a fulcrum for better governance, underpinning economic development in Zambia. These results were supported by interview participants who argued that Zambians cannot anticipate economic fortunes in an environment where accountability has been abandoned;

they also suggested that any debate about governance and development in Zambia would be counterfeit without accountability on the agenda.

Interview participants discussed accountability at three levels - personal, corporate and state - arguing that accountability should start at the first of these. At a personal level (also referred to as ‘moral’ or ‘ethical’ in the discussions), interviewees argued that unless those entrusted with managing resources on behalf of others were men and women of integrity, with unquestionable ethical standings, attempts to improve corporate governance were destined to fail. The participants suggested that personal accountability provides the foundation for all other forms as it is self-regulated. In this context, participants maintained that the quality of accountability rests with individuals. However, there was also evidence to suggest that Zambian culture exerts significant influence on accountability systems. Participants argued that, unfortunately, some of the cultural stances contradicted the principles of good corporate governance - for example in some boards, members are not traditionally allowed to openly oppose the chairman, whilst in other environments it is viewed as inappropriate to ask superiors to account for their actions.

At state level, participants provided evidence that the government and its spending agencies and SOEs still harbour debilitated processes, creating problems for accountability ranging from lack of proper accounting for public expenditure to irregularities and misuse of public funds. Participants presented examples of such irregularities which, in some cases, resulted in donor countries withdrawing their support and developmental aid.

Eighty-eight per cent of questionnaire respondents agreed that, in theory, accountability influences the flow of development aid in a substantive manner. However, prior studies have consistently shown that there has been little agreement on the positive association between the two and more research is clearly needed. Notwithstanding this issue, the research participants in the present study provided evidence that donors have now resorted to using good governance conditionality as a way of helping Zambia to improve its governance standing, a requirement that Zambia has struggled to meet convincingly. The suspension of donor assistance due to the country's non-compliance with good governance conditionality suggests that donors are focussed on addressing governance and accountability dilemmas in Zambia.

Conventional theories and prior studies have associated levels of Foreign Direct Investment (FDI) to the quality of national corporate governance. In Zambia, while participants agreed with this theoretical dictum, in practice the notion was not thought to hold; 87% of questionnaire respondents acknowledged the theoretical link, but it was suggested that in the Zambian context the motivation for increased investment flows is tied more to political stability and other incentives such as tax concessions. More generally, at corporate level interview participants argued that as long as corporations continue to view corporate governance as a narrow "straitjacket", Zambians at large may not appreciate the benefits. Participants believed that companies in Zambia must begin to take on board expectations of wider stakeholder groups such as communities. All examples of irregularities given by the interviewees pointed to the deficient corporate governance practices in the mining sector on which the economy of the country is anchored; this was further compounded by a lack of professional expertise.

In terms of public accountability, interviews focussed on accountability for: probity and legality; process; performance; programme and policy in the government set-up[229]. In this context, the Office of the Auditor General (OAG) dominated discussions concerning public accountability, with perceptions evident of a major accountability weakness in the

[229]This is consistent with Stewart (1984)'s view of accountability in a public context as analysed in the description of Stewart's Ladder of Accountability in Chapter Six of this thesis.

management of public resources. In particular, interviewees (emotionally) contended that every year the OAG's report contained broad irregularities in terms of government expenditure, but the government had never taken the issue seriously. Here, the interview findings revealed a widely-held perception that corporate governance failures in Zambia are a reflection of weak accountability institutions and a lack of political will.

10.6.1 Institutional Capacity

The interview findings provided strong evidence that institutional capacity is a fundamental influence on corporate governance and accountability standards. Participants raised concerns regarding weak legal and regulatory frameworks, large ownership concentration, underdeveloped stock markets and frequent government interventions as some of the main institutional constraints on corporate governance in Zambia. While the literature review and interview findings reveal that corporate governance matters most to emerging economies, at the same time the evidence indicates that emerging economies like Zambia are seen as being bridled with institutional deficiencies, creating a governance web. This incongruity makes it highly problematic to implement and deal with complex corporate governance issues. Interview participants argued that to enforce the fundamental governance principles of accountability, transparency, responsibility and fairness, basic governance institutions must be willing to support the basic corporate governance framework. This support, according to the interviewees, requires institutional reforms that promote corporate governance and greater accountability. Relatedly, the findings indicate that Zambia is less likely to attract the required investment to boost the economy in an environment of dysfunctional institutions, although participants also recognised that reforming governance and accountability institutions is a complex and challenging undertaking - especially in the absence of political support - because the process normally involves fundamental change.

Participants argued that 'undependable' institutions pose considerable problems for Zambia's governance system and, as a result, its development. Institutions that play the role of compliance monitoring were seen as being fundamental to the execution of accountability. In this regard, the interviewees' opinions coincided with the evidence of robust corporate governance requiring underpinning by strong legal and regulatory frameworks. Institutional reform was therefore viewed as a way of strengthening accountability and corporate governance in Zambia, a change which many interviewees believed to be at the core of development. However, the non-existence of legislature specific to corporate governance makes enforcement and compliance monitoring a problematic area in Zambia. The issue is further compounded by the general nature of commercial laws that mimic corporate governance legislature. According to the evidence obtained here, the Zambian legal system is seen as very weak while the enforcement side is also suspect; the findings suggest that the majority of participants support the fusion of corporate governance and the country's broader system of company law.

10.7 Chinese Investment and Corporate Governance in Zambia

As mentioned in chapters three and four, and also earlier in this chapter, governance theories predict that the level of investment in countries is to some extent underpinned by the quality of corporate governance and vice-versa. In this regard, China's increased investment in the mining sector in Zambia has sparked searching questions in terms of business conduct and corporate governance practices. While participants acknowledged that the difficulties regarding corporate governance practice in Zambia are not confined to Chinese firms alone, there was a suggestion that the latter appear to have adopted a business culture that is not in congruity with any conventional formulation of what represents 'good' corporate governance practices. In particular, interviewees labelled most Chinese firms as: having no regard for the local laws, which they flout with impunity; ignoring labour and environmental laws; having little concern for the health and safety of their workers, or the communities in which they operate; and appearing not to be socially responsible. In fact, Zambia's governance weaknesses were suggested as one of the features that had led to China's increased investment in recent years.

The interview data provided three potential explanations for the corporate governance difficulties with the increased Chinese investment in Zambia. Firstly, it was argued that most of the investments are negotiated directly between the two governments and that the majority of Chinese firms are part of larger SOEs in China. Thus, by their very nature, the firms concerned were not expected to be strong advocates for robust corporate governance standards - the literature suggests that corporate governance in state-controlled enterprises is often very poor. The absence of boards in most Chinese firms operating in Zambia is a manifestation of this. Secondly, the political and diplomatic nature of most Chinese investment in the country, coupled with the Zambian government's interventions, compromises enforcement and accountability institutions, thereby weakening commercial laws and the regulation of corporate governance. Finally in this context, the research participants argued that Chinese firms are seizing business opportunities precisely because of the underlying frailty of legal and regulatory systems in Zambia.

10.8 Benefits and Challenges

10.8.1 Benefits

Prior studies have pointed to a common knowledge that the global ascendancy of corporate governance is anchored in the belief that there have been incontrovertible resultant benefits in terms of both corporate and national economic growth. The present study has found that improved corporate governance is widely viewed as having many benefits for Zambia as a developing nation, ranging from encouraging growth of the private sector to increasing investor confidence in the national economy. Both the questionnaire and interview findings suggest that the principles of accountability, transparency and fairness that are closely linked with corporate governance, offer the basis for robust governance and development in the future. More specifically, the participants argued that the inadequacy of resources in Zambia means that their successful allocation hinges on an accountable, transparent and fair system. The data saw proclamation of benefits such as maintaining investor confidence (by providing accountability for the proper functioning of the Zambian market economy), access to the global pool of investment capital, mechanisms that guarantee an accountable and fair allocation of resources, enhancement of Zambia's governance reputation for attracting investment, as well as a lowering of the cost of capital and the cost of doing business in the nation. Those taking part in the study also argued that strong governance minimises wastage and corruption and ensures that organisations are managed in a manner that fits the best interests of all.

10.8.2 Challenges

The study has found the conceptualisation of corporate governance in Zambia to be hampered by a plethora of challenges, most of which are more complicated than those encountered in developed nations; these range from cultural rigidity to dysfunctional institutional arrangements. Although accountability and transparency are recognised as "must haves", cultural impediments continue to restrict corporate governance conceptualisation in Zambian. For example, the interview participants argued that issues of corruption, accountability and transparency are not normally discussed at board level, while a questionnaire respondent from a government-controlled firm stated that in some organisations it was simply a taboo to openly oppose the chairman of the board as he was regarded as a de facto "chief". The results also indicate that some senior managers harbour a view that it is inappropriate for a junior employee to challenge superiors on issues of accountability and transparency. In this regard, some senior managers often refuse to be audited by persons who are their junior in age or salary terms. Recent evidence in Wanyama et al. (2009) suggests that broader cultural norms appear to influence corporate governance and pose huge challenges in many African countries. In Zambia, the questionnaire and interview findings corroborated this evidence, with participants blaming the country's 20 plus years of state capitalism, characterised by an aura of secrecy and patronage. Other challenges that participants pointed to included the lack of established institutional infrastructure needed to facilitate meaningful corporate governance systems, as well as the politisisation of accountability and governance institutions, weak enforcement agencies and frail stock markets.

According to participants, other challenges stemmed from the ownership structures common in Zambia, where many private companies are owned and controlled by an individual or a family. Although the last decade has witnessed improvements, the empirical data gathered here suggest that awareness of the potential benefits of strong corporate governance for such companies is not pervasive in Zambia. The results also demonstrate that while the country has been quick to embrace globalisation and the free market economy, appropriate measures have not been taken to modernise institutions in line with the challenges of a liberalised environment. However, as was evident throughout the empirical work, corruption is seen as the single most fundamental obstacle to good corporate governance practices in Zambia and, until this issue is dealt with, it is clear that any attempt to improve practices in Zambia will be met with, at best, widespread cynicism.

10.9 Policy Implications, Contributions, Limitations and Future Research

10.9.1 Policy Implications

Corporate governance has emerged as a major public policy priority in many developing countries and the evolutionary discourse in Zambia has significant policy implications both at corporate and state levels. In addition, the recent declaration by the NEPAD that corporate governance is fundamental to the recovery of Africa's lost development opportunities has increased awareness that Zambia's economic fortunes have come to depend on it. Understanding of corporate governance, and its effect on the country's economic performance, should therefore guide policymakers on the future direction for the country's economy. The findings from the literature review and the suggestions made by the research participants in this study form the basis for policy recommendations on what needs to be done to improve corporate governance and, in turn economic performance in Zambia.

(i) This study has found that awareness of corporate governance as a practical concept in Zambia is at an initiatory stage and many people are still to develop a firm understanding of its consequential implications for Zambia's economic performance. What is therefore required is for the promoters of corporate governance in the country to be recognised and given the attention they deserve; in particular the IODZ should be given statutory body status, equally so the Zambia Institute of Chartered Accountants (ZICA) and the Law Association of Zambia (LAZ), through an Act of Parliament so that they have the statutory power needed to supervise and co-ordinate corporate governance programmes across the country. Here, the interviewees further suggested that the IODZ should be given the mandate to scrutinise and identify potential directors and board members, especially in public organisations.

(ii) In terms of awareness, participants suggested that institutions of higher learning in Zambia should introduce corporate governance courses for all students since the subject cuts across all disciplines. In particular, universities should consider introducing part-time courses for those who are already in employment to supplement the IODZ's awareness programmes.

(iii) Prior empirical evidence suggests that corporate governance is affected by legal and regulatory frameworks, but the results of the present study provide evidence that Zambian legal and regulatory systems have not been modernised in any meaningful way. Similarly, the Zambian parliamentary committee on governance argues in its report that it is difficult to supervise and regulate corporate governance in Zambia because the country does not have legislature specific to the area. One implication of these findings is that there is a clear need for policymakers in Zambia to review the current legal and regulatory systems. The Companies Act (supplemented by other commercial laws such as the Securities and Exchange Act) and the Banking and Financial Services Act, constitute the principal framework for corporate governance in Zambia. However, given the blanket nature of the Companies Act, participants suggested three options for policymakers and these should now be considered as prorities for Zambia's regulatory authorities: firstly, embedding of key corporate governance principles in the Companies Act. Secondly, a review of current corporate law in line with changes in the corporate governance land; participants argued that similar ideas were behind the emergence of the King III report on corporate governance in South Africa and the same process would be beneficial to Zambia. Thirdly, policymakers should consider legislation that specifically deals with issues of corporate governance. Such a change will improve supervision and regulation, but it must also address the enforcement difficulties the country has faced for many years.

(iv) The analysis of the literature prescribed in Chapter Three and Chapter Four suggests that corporate governance has important implications for economic development, especially in championing the flow of investment finance in emerging nations; however, the interview and questionnaire evidence in the thesis indicates that this link is not clearly understood in practice. This gap in perceptions has important implications for policymakers in Zambia. While the political and economic reforms Zambia has undergone since independence were meant to augment economic performance, the results of this study indicate that the corporate governance implications are likely to continue to be underestimated unless concerted action is taken. This suggestion has important implications for future reforms designed to improve Zambia's economic performance and policymakers should address this by combining government efforts with the private sector, alongside the support and involvement of society.

(v) The findings presented here suggest that a lack of political will on the part of the government has contributed to the lack of a clear conceptualisation of the notion and potential role of corporate governance in Zambia. Suggestions were made that government should support efforts to improve corporate governance both in the private and public sectors; participants pointed to the Zambian government's status as the de facto biggest company in the country, controlling enormous resources on behalf of the citizens, and having the potential to strengthen corporate governance and thereby improve economic efficiency. There was evidence that the private sector has devised initiatives to train and encourage companies through board charters to adopt a robust corporate governance culture. However, problems still remain in the public sector. In this context, potentially one of the most important policy implications arising from the findings is that good corporate governance principles should be incorporated into the ministerial code of conduct. In addition, a corporate governance code should be introduced to take care of government ministries, spending agencies and SOEs; the latter category has not been captured by the extant three Zambian codes and so development in this area is critical.

Policymakers face a number of challenges in implementing the recommendations made in this study. Firstly, it must be noted that the corporate governance system in Zambia and any reforms related to it will have implications at the political, economic, legal, cultural, historical and international levels. Secondly, citizens must be convinced of the benefits of corporate governance before they can support and participate in the evolutionary discourse of corporate governance in Zambia. Nonetheless, various reform measures have already been initiated in a number of areas and have taken root; resistance to change, while not negligible, is not insurmountable.

10.9.2 Contributions to Knowledge

This study has made contributions in a number of areas. Firstly, although the previous studies indicate that corporate governance has become a worldwide phenomenon, there is a lack of literature on corporate governance practices in emerging post-colonial nations such as Zambia. The lack of research and consequential dearth of literature in this context has created a vast knowledge gap especially regarding corporate governance's implications for national development. The current study has contributed to filling this gap. Secondly, the economic development aspects of corporate governance are better articulated in developed economies. As regards Africa, many researchers in this area have focussed their attention on the continent as a whole, ignoring the major contextual differences that exist across borders in terms of political, economic, legal, cultural and historical circumstances. Thirdly, while Zambians appear to support the NEPAD assertion that corporate governance is one of the necessary conditions for Africa's revival, there is a dearth of literature specific to corporate governance's implications for Zambia's economic health. In this regard, the current study makes a significant contribution to the existing literature by highlighting and analysing in depth the corporate governance issues specific to Zambia.

Fourthly, corporate governance has both a narrow and an all-encompassing meaning or objective. In its narrow conception, corporate governance focuses on defusing the tension between management and shareholders; the existing scant literature regarding corporate governance in Zambia is heavily biased in this direction, in particular its implications for company structures and performances that can achieve share price maximisation. This partiality has contributed to the mistaken belief detected in the interview findings and questionnaire survey results that debates about corporate governance relate purely to company management. By taking the debate to a level beyond corporate boundaries and principal-agent theorising, i.e. to the potential influence on the development of emerging economies, the study makes a major contribution to the existing literature in suggesting that the driving force for corporate governance reform in countries such as Zambia needs to be more developmental-oriented than has been the case to date.

Fifthly, the literature review indicates that robust corporate governance can make a real difference to emerging economies when underpinned by effective acountability. On the other hand, the empirical evidence indicated that Zambia, like other developing economies, is characterised by a corporate governance system anchored on defective institutions. This study has made a contribution in this area by suggesting that corporate governance reforms in emerging economies should not be considered in isolation, but should instead work in concordance with legal and regulatory systems. Finally, the study has found that despite the numerous political and economic reforms that Zambia has undergone in search of economic prosperity, such reforms did not take corporate governance into account in any meaningful way. The current study should remind policymakers in Zambia that corporate governance must be part and parcel of all reforms and that accountability represents the nucleus of the economic advancement process.

10.9.3 Limitations

Any research process is subject to limitations and the present study is no exception. The most significant of these are outlined here. Previous literature about a given topic provides a rich source of information for research, but in the context of the current study there was a limitation in terms of the paucity of reliable prior studies specific to Zambian corporate governance. The major problem, as the discussion in this thesis has shown, is that the great majority of researchers have chosen to write about Africa as a whole and not about individual countries. As a result, continent-wide evidence had to be used extensively.

Another limitation stems from the fact that research on governance and accountability-related subjects are very politically-sensitive in Africa. In this regard, despite confidentiality assurances, a number of interview participants were clearly nervous and hence did not want to disclose certain information viewed to be 'sensitive' on their part, but potentially important for this research. This problem was compounded by the fact that the data collection exercise in Zambia was conducted two months before local government, parliamentary and presidential elections, when issues of governance and accountability featured highly in political campaigns.

On a related note, the environment in Zambia at the time of study meant that extensive efforts were required to persuade interviewees and survey receipients to take part. In total, 24 participants were interviewed and 65 questionnaire responses were collected; notwithstanding the time involved in achieving these figures, the relatively small number of participants means that attempts to generalise from the results need to be undertaken with caution.

Other limitations related to the specific research methods employed. There is an inherent limitation in the use of questionnaires both in terms of design and participant selection. The closed questionnaire design used in the current research made it difficult to gather information that was rich in depth and detail because the questions, deliberately, reflected the researcher's particular stance on the subject and most of the answers that the respondents provided were limited. Similarly, the purposeful (self-selecting) participant selection criteria used were very arbitrary and subjective. There is thus a potential limitation in that the participants may not have been selected entirely objectively, as it was difficult to involve all stakeholder groups, and opinions may be biased in favour of one or more categories of the population.

Finally, an inherent limitation of the current study relates to its focus on investigating the people's perceptions of the implications of corporate governance for Zambia's development. In this regard, the findings were of necessity a reflection of those who participated in the research. However, most of the views expressed by questionnaire respondents were in congruity with the issues raised by interview participants and were similarly echoed in the literature review. It is therefore felt that this limitation does not mean that the validity of the broad research findings are called into question.

10.9.4 Future Research

The dearth of literature specific to Zambia's situation on corporate governance is in itself a manifestation that very little academic research in general has been undertaken on Zambia, a gap which this study has attempted to begin to address. While literature on Africa as a whole can be used as a springboard, future researchers should be encouraged to target individual countries, as this study has demonstrated that individual African countries have diverse political, economic, legal, cultural and historical circumstances. For example, there are countries within Africa that have undergone numerous coup d'états (such as Uganda[230] and Congo), some have been under military rule for sustainable periods (such as Nigeria), some are classified as failed states (such as Somalia), some have endured dictatorships for long periods (such as Libya), while some have been politically stable since independence (such as Zambia, Botswana and Malawi) and others have only become independent in the last 30-35 years (such as Zimbabwe) and have yet to experience post-colonial stability. There are thus unique governance specificities that need to be appreciated for individual countries to provide a better and deeper understanding than is achievable by focussing on the continent as a whole. Africa, it is argued, has anaemic governance and accountability institutions, but it is on these that the quality of corporate governance critically depends. Future researchers are therefore encouraged to take up research in this direction. To get a solid understanding of the challenges affecting corporate governance in individual African nations, the researcher’s experiences here suggest that specific challenges be studied separately to understand individual contextual impacts on corporate governance, rather than using a wholesale approach. As a result, understanding of nationally-relevant corporate governance debates and suggestions for improvements will be facilitated most effectively.

10.10 Concluding Remarks

Zambia’s failure to record meaningful levels of economic development since independence, despite several periods of political and economic reforms - coupled with the NEPAD declaration of corporate governance as one of the necessary requirements for Africa’s renewal - has boosted the corporate governance debate in Zambia. However, being in its embryonic stage, conceptualisation of the concept has been very slow and opinions as to its meaning and benefits, both to the corporation and the economic well-being of the country, are only just beginning to chrystalise. Notwithstanding this torpor, the term “corporate

[230]Wanyama et al. (2009) argue that corporate governance in Uganda has been seriously affected by unstable political structures.

governance" is now in everyday use in Zambia. Robust corporate governance practices ensure that individuals and organisations do the right things, in the right way, for the right people, in an accountable, transparent, honest and inclusive manner. The findings presented here have demonstrated that the factors influencing corporate governance in Zambia are multi-farious in nature and do not come in neatly-labelled discrete packages; in fact, the complexities in dealing with them imply that they must be understood in a broader context. Consideration must also be given to the expectations of the wider stakeholder constituents that have less formal relationships with organisations operating in Zambia. The empirical evidence in this thesis indicate that Zambians do now realise that an efficient corporate governance regime may be an essential requirement if the country is to attract the investment needed to generate significant growth. However, to achieve this, an effective system of accountability that guarantees actions, transparency and disclosure is also essential. The findings indicate that the many challenges concerning corporate governance in Zambia in fact revolve around the concept of accountability - in short, accountability <u>and</u> good governance underpin economic development and the more pervasive the understanding of this notion, the brighter the nation's future.

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Appendices

Appendix 2.1

Acts of parliament and other instruments that impact on corporate governance

a) The Companies Act - An Act to provide for the formation, management, administration and winding-up of companies; to provide for the registration of charges over the undertakings or properties of companies; to provide for the registration of foreign companies doing business in Zambia.

b) The Banking and Financial Services Act - An Act to provide for the regulation of the conduct of banking and financial services; to provide safeguards for investors in and customers of banks and financial institutions and to provide for matters connected with or incidental to the foregoing. These include: Licensing of banks and financial institutions, Organisation and administration, Operations, Financial Accountability, Supervision and Prudential Regulation, Insolvency Dissolution and Liquidation of Banks and Financial Institutions.

c) The Bank of Zambia Act – the supervision of other banks.

d) Investments Act - An Act revising the law relating to Investment in Zambia so as to provide a comprehensive legal framework for investment in Zambia.

e) Privatisation Act - An Act to provide for the establishment of the Zambia Privatisation Agency and to define the functions of the Agency; to provide for the sale of shares in State owned enterprises; and to provide for matters connected with or incidental to.

f) Registration of Business Names Act - An Act to provide for the registration of business names.

g) Accountants Act - An Act to provide for the regulation of the education and training of accountants and generally for the advancement of accountancy and allied subjects; to provide for the regulation and control of the practice of accountancy; to provide for the establishment of the Zambia Institute of Certified Accountants; to define the functions and powers of the Institute

h) Insurance Act - An Act to make provision relating to the carrying on of insurance business

i) The Patents and Companies Registration Office (PACRO) is a semi-autonomous executive agency of the Zambian Ministry of Commerce, Trade and Industry. Its principal functions are to operate a legal system for registration and protection of commercial and industrial property and to serve as a legal depository of the information tendered for registration.

j) The Competition and Fair Trading Act - An Act to encourage competition in the economy by prohibiting Anticompetitive trade practices; to regulate monopolies and concentrations of economic power; to protect consumer welfare; to strengthen the efficiency of production and distribution of services; to secure the best possible conditions for the freedom of trade: and to expand the base of entrepreneurship.

k) The Export Board of Zambia - The Export Board of Zambia (EBZ) is a statutory body established by government under the 1985 Export Development Act of Parliament. It was created solely to spearhead the development, promotion and encouragement of local products in foreign markets.

l) The Securities and Exchange Commission - To promote and maintain a strong and facilitative regulatory framework that ensures the orderly development of an innovative and competitive capital market for the secure, fair, efficient and transparent issuance and trading of securities.

m) Zambia Development Agency Act - An Act to foster economic growth and development by promoting trade and investment in Zambia through an efficient, effective and coordinated private sector-led economic development strategy.

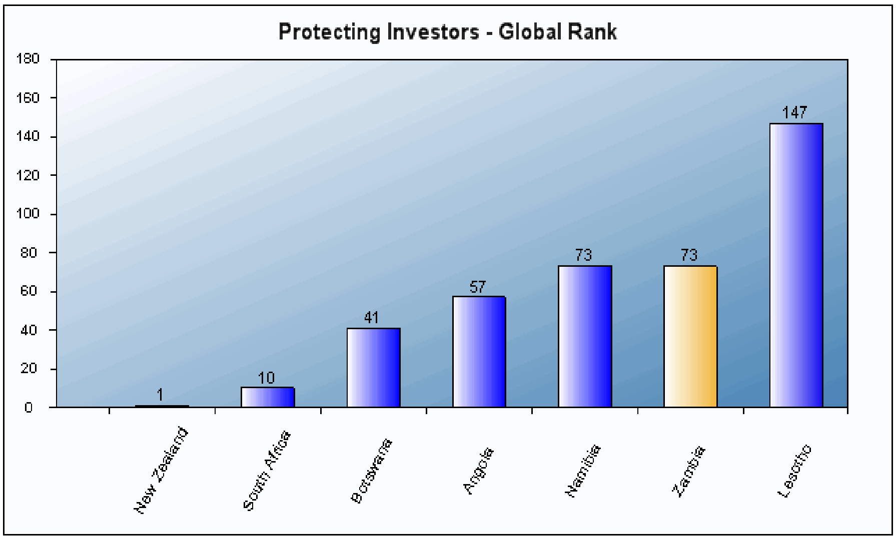
n) Zambia Revenue Authority (ZRA) - The Authority is charged with the responsibility of collecting revenue on behalf of the Government, maintaining the key principles of efficiency in taxation, maintaining equity through a broadened tax base and simplicity of tax administration and compliance processes. The ZRA achieves its mandate by promoting voluntary tax compliance, trade, border legislation and regulations through communication, quality service and enforcement. It also provides efficient tax registration, efficient methods of processing tax refunds and trade facilitation.

Appendix 4.1

Doing Business in Zambia

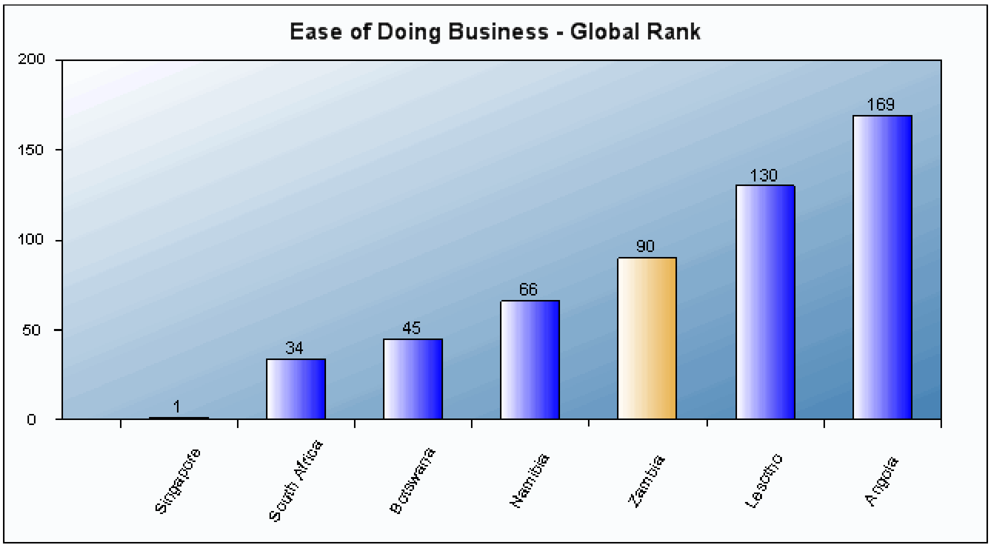
The following graphs illustrate how the country's levels of confidence in terms of: Protecting Investors; Ease of Doing Business and; Starting a Business compare with best practice in economies.

Zambia's Ranking in Investor Protection



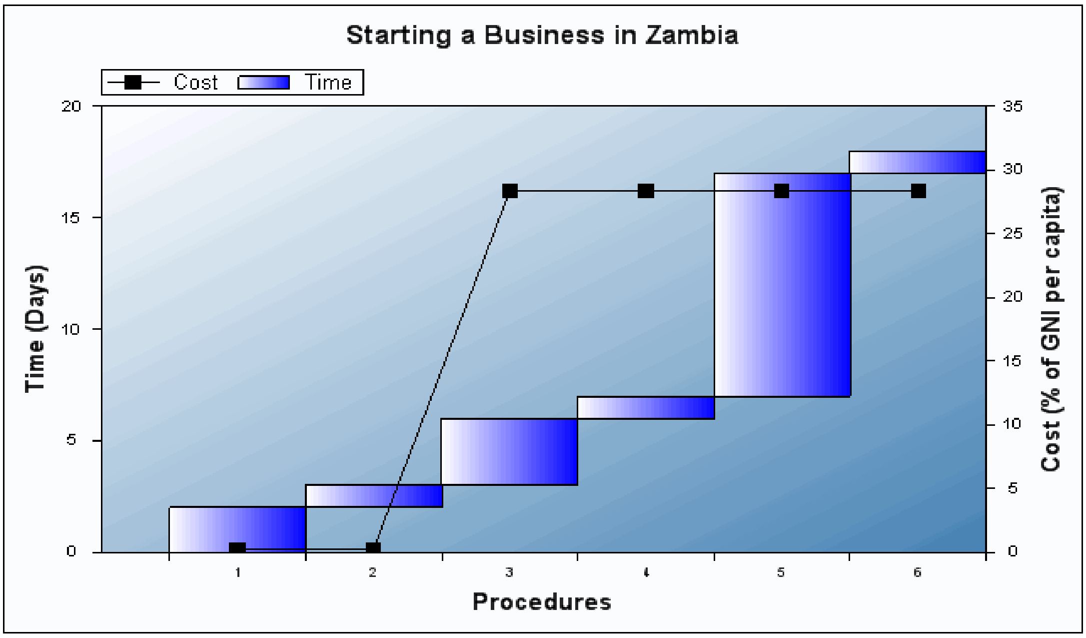
Source: Doing Business (2010).

Zambia's Ranking in the Ease of Doing Business.

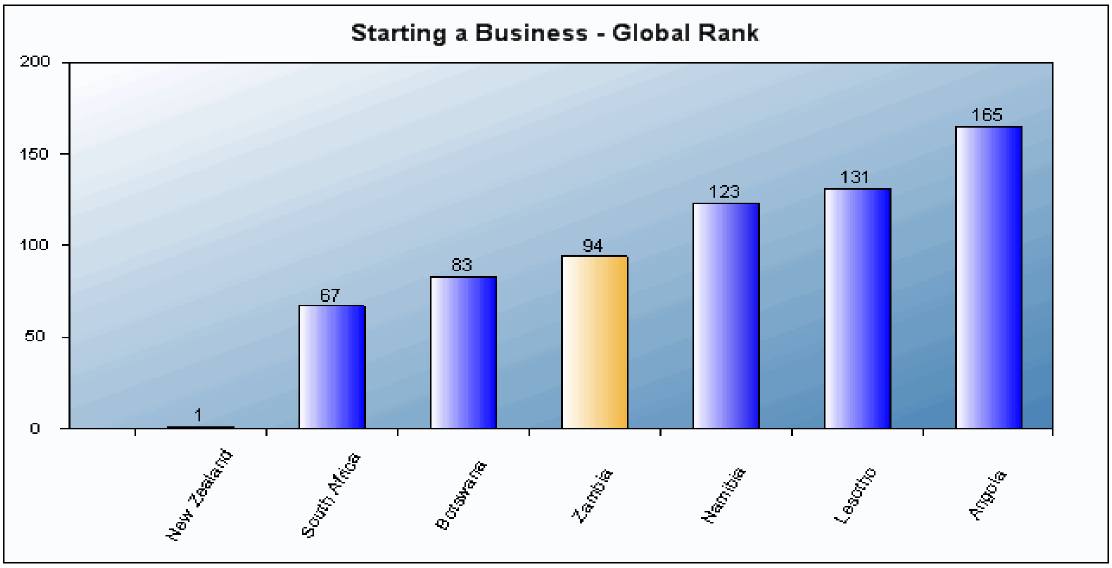


Source: Doing Business (2010).

Starting a Business in Zambia



Source: Doing Business (2010).



Source: Doing Business (2010).

Appendix 6.1

Semi-structured interviews - guiding questions

UNIVERSITY OF DUNDEE

Guiding questions for semi-structured interviews

The Perceived Role of Corporate Governance in Zambia's Development

Shikaputo M. Chanda G.
PhD Student
School of Business
Department of Accounting and Finance
Dundee DD1 4HN
SCOTLAND
United Kingdom

Introduction

A number of scholars have argued that the lack of development in Africa - and Zambia in particular - is a result of problems with corporate governance. Similarly, the New Partnership for Africa's Development (NEPAD) has identified corporate governance as one of the necessary conditions for development in Africa. The research is focused on finding out the current state in Zambia of corporate governance and how Zambians perceive the relationship between corporate governance and economic development.

The analysis centres on the drivers of corporate governance in Zambia, the suitability of Western corporate governance principles, governance and donor aid and how they may impact on Zambia's development.

SECTION A

Corporate Governance

1. What do you understand by the term corporate governance?
2. What is your assessment of the current corporate governance situation in Zambia?
3. Do you think corporate governance matters to a country like Zambia?
4. What would you point to as the drivers of the current corporate governance developments in Zambia?

Corporations

5. Do you have a corporate governance code or guidelines at your company, if so, what are the main aspects highlighted in your code?
6. To what extent does your company comply with these guidelines in practice?
7. Are you aware of the LuSE, BOZ and IODZ Codes, what is your assessment of these corporate governance codes?

8. Are you aware of other codes such as the OECD, King Report, UK, US, to what extent do these external codes influence corporate governance in your company?
9. In your opinion, which code of corporate governance principles is more relevant to your company?

Lusaka Stock Exchange

10. Why do you think corporate governance is important for the companies listed on the Lusaka Stock Exchange?
11. What do you consider as the many areas of the Lusaka Stock Exchange Code on corporate governance and how relevant are they to doing business in Zambia?
12. Are you aware of other codes such as the OECD, King Report, UK, US, to what extent do these external codes influence the LuSE code?
13. What has been the response from the companies affected by the LuSE Code of corporate governance principles?
14. What is the impact of the LuSE Code on companies that are not listed on LuSE?

Government and the public sector

15. Are you aware of the LuSE Code, BOZ Code and IODZ Code; are they relevant and adequate for this country?
16. Are you aware of other codes such as the OECD, King Report, UK, US, how suitable are these – outside - codes to the Zambian environment?
17. In your opinion, which code of corporate governance principles is more relevant to the Zambian situation?
18. To what extent do you think corporate governance is important for
    - The government in Zambia?
    - Corporate community in Zambia?

Others

19. What can you point to as some of the benefits, if any of implementing effective corporate governance practices in Zambia and what are the challenges?
20. To what extent do you think corruption affects corporate governance in your organisation and doing business in Zambia?
21. Do you think corporate governance in Zambia is applicable to all organisations including the government or it should be restricted to the corporate community only?
22. Does the country have any laws or regulations that are specific to corporate governance?
23. Which bodies regulate and supervise corporate governance in Zambia, do you think they have the powers and resources to enforce the regulations?
24. How does corporate governance contribute to society's well being in Zambia?

SECTION B

Corporate governance and development

25. Corporate governance has been identified by the New Partnership for Africa's Development (NEPAD) as one of the conditions for development in Africa. To what extent do you understand the concept of corporate governance as a condition for development in Zambia?

26. What do you think are some of the factors that link corporate governance to Zambia's development?
27. To what extent do you agree that sound corporate governance practices are fundamental to Zambia's economic recovery?
28. To what extent do you think corruption affects corporate governance and development in Zambia?

29. The country's economy depends on the drive and efficiency of its companies. Proper run companies have become important to every country's economy as they are widely viewed as engines for wealth creation. Do you agree with this notion?

Lusaka Stock Exchange and Private Companies

30. The country's economy depends on the drive and efficiency of its companies. Proper run companies have become important to every country's economy as they are widely viewed as engines for wealth creation. What do you think is the role of the Lusaka Stock Exchange in the development of this country?

Corporations

31. The country's economy depends on the drive and efficiency of its companies. Proper run companies have become important to every country's economy as they are widely viewed as engines for wealth creation. What do you think is the role of your company in the development of this country?
32. As a company you are a citizen in this country. What is the company's contribution to the society's well being in Zambia?
33. Do you have any other comments that you would like to make on the perceived role of corporate governance in Zambia's development?

SECTION C

Accountability

34. What is your understanding or interpretation of the concept of accountability in Zambia and to what extent do you think the governance problems in Zambia are linked to lack of accountability?
35. How can accountability contribute to better governance in Zambia?
36. Does the country have the institutional capacity to embrace corporate governance and accountability?

Lusaka Stock Exchange

37. What is your understanding or interpretation of the concept of accountability under LuSE corporate governance code and to what extent do you think the governance problems in Zambia are linked to lack of accountability?

Corporations

38. What is your understanding or interpretation of the concept of accountability in your company, and to whom is your company accountable?
39. Is your company accountable to non- shareholding stakeholders?
40. Do you think that accountability is your company's responsibility and how can accountability contribute to better governance in Zambia?
41. How do the Zambian cultural values affect the accountability model and the way your company is run in Zambia?
42. There are many different types of accountability of which financial accountability is only one example. To what extent is your company accountable in terms of; probity and legality, process, performance, programme and policy?

Others

43. How do the Zambian cultural values affect the accountability model and the way businesses are run in Zambia?
44. There are many different types of accountability of which financial accountability is only one example. To what extent is the Zambian government accountable in the following areas:
    - the proper use of funds in the manner authorised and that money has been spent as agreed and in accordance with any applicable regulation

- that adequate and appropriate procedures are used to achieve the economic goals
- ensure that the government is accountable for the policies that they pursue as well as policies that they do not pursue.

45. To what extent do you think corporate governance and accountability affect the flow of FDI and development aid to Zambia?
46. Since 1991, over 285 companies have been privatised. Do you think privatisation has been one of the drivers of corporate governance in Zambia or vice versa?
47. Do you have any other comments that you would like to make on topic

Personal Details for the interviewee

1. Name (Interviewee)…………….…………………………………………………….
2. Name of organization (Optional)………………………….………………….........
3. Position in the Organisation…………………………………………………………….
4. Education Qualification……………………………….……………………..
5. Experience (years)...………………………………………………………………
6. Please describe your role………………………………………………………………….
7. Date……………………………..…Time……………………………..…………….
8. Can the interview be taped? ....…...

Appendix 6.2

Questionnaire Survey Questions

UNIVERSITY OF DUNDEE

Questionnaire Survey

The Perceived Role of Corporate Governance in Zambia's Development

Shikaputo M. Chanda G.
PhD Student
School of Business
Department of Accounting and Finance
Dundee DD1 4HN
SCOTLAND

Dear Participant

I am currently studying for a doctorate degree at the University of Dundee, Scotland, United Kingdom, under the supervision of Dr. Bruce Burton and Dr. Theresa Dunne. My study focuses on 'The Perceived Role of Corporate Governance in Zambia's Development'. The main objective is to explore the perceptions of Zambian stakeholders about corporate governance as a tool for development. To achieve these objectives, I need to carry out questionnaire surveys in Zambia, and your participation will therefore contribute greatly.

I very much welcome your views regarding the issues raised in this questionnaire. All information will be treated as confidential and will only be used for the purposes of this research. The names and positions of participants will not be disclosed.

Your response to this questionnaire survey will be greatly appreciated.

Shikaputo M. Chanda G.

For any enquiries please contact:
mcgshikaputo@dundee.ac.uk / shikaputog@yahoo.com
United Kingdom +44 (0) 7504277495
Zambia +26 (0) 962170090

A. Demographic Information

9. Indicate your name (Optional)…………………………………………………………

10. Name of organization (Optional)……………………………………………….........

11. Please describe your role…………………………………………………………….

12. Please indicate the category that you belong to by ticking the appropriate box. ✓

Your Position		Private	Government	Other (indicate)	Approximate number of years in position
1	Chairman				
2	Chairman and Chief Executive				
3	Chief Executive Officer				
4	Executive director				
5	Executive Board Member				
6	Non-Executive Board Member				
7	Remunerations Committee Member				
8	Audit Committee Member				
9	Nominations Committee Member				
10	Employee				
11	External auditor				
12	Regulator				
13	Institutional investor				
14	Individual investor				
15	Financial analyst/consultant				
16	Stoke broker				
17	Academician				
18	Corporate legal consultant				
19	Other(Specify) …………………………………				

B. Corporate Governance

13. How familiar are you with the concept of corporate governance?

Very familiar	**Familiar**	**Some familiarity**	**Not familiar**	**Not sure**

14. How familiar are you with the following Zambian corporate governance codes?

Corporate Governance Codes	**Very Familiar**	**Familiar**	**Some familiarity**	**Not familiar**	**Not sure**
Lusaka Stock Exchange Code					
Bank of Zambia Code					
IODZ – SME Code					

15. To what extent do you agree that the term 'Corporate Governance' refers to each of the following descriptions?

1 = Strongly Agree	**2 = Agree**	**3 = Neutral**	**4 = Disagree**	**5 = Strongly Disagree**

	Definition	**1**	**2**	**3**	**4**	**5**
A	The system by which companies are directed and controlled					
B	The way in which suppliers of finance to corporations assure themselves of getting a return on their investment					
C	A set of relationships between a company's management, its board, its shareholders and other stakeholders					
D	Set of mechanisms through which outside investors are protected against appropriation by insiders					
E	A System of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity					
F	Other ………………………………………………………………					

16. To what extent do you think the above definitions best fit the Zambian context?

Definition	**Very suitable**	**suitable**	**Not suitable**	**Not sure**
A				
B				
C				
D				
E				

17. The implication and importance of corporate governance varies across nations. How do you rate the suitability of Western corporate governance codes to the Zambian context?

Very suitable	**Suitable**	**Not suitable**	**Not sure**

18. To what extent are the following factors viewed as corporate governance drivers in Zambia?

1 = Strongly Agree	**2 = Agree**	**3 = Neutral**	**4 = Disagree**	**5 = Strongly Disagree**

Corporate governance drivers in Zambia	**1**	**2**	**3**	**4**	**5**
Corporate scandals in Zambia					
Corporate scandals elsewhere (outside Zambia)					
Integration into the global market					
Economic development					
Quest to attract local and foreign investment for growth					
Privatisation programme					
Almost everyone is doing it					

19. Do you think the following factors affect corporate governance practices in Zambia?

1 = Strongly Agree 2 = Agree 3 = Neutral 4 = Disagree 5 = Strongly Disagree

	Factors affecting Corporate Governance in Zambia	**1**	**2**	**3**	**4**	**5**
1	Laws and Regulation					
2	Cultural beliefs and values					
3	Political interference					
4	Social and ethical factors					
5	Corruption					
6	Lack of accountability					

20. To what extent do you agree with the following as being benefits of corporate governance?

1 = Strongly Agree 2 = Agree 3 = Neutral 4 = Disagree 5 = Strongly Disagree

	Benefits of corporate governance in Zambia	**1**	**2**	**3**	**4**	**5**
1	providing the degree of accountability necessary for the proper functioning of the Zambian market economy					
2	Zambia's entry tool into the global pool of capital					
3	prerequisite to Zambia's national economic development					
4	help in the alleviation of poverty in Zambia					
5	help in the efficient allocation of capital in Zambia					
6	as a safeguard against corruption and mismanagement in Zambia					
7	making Zambia attractive for investment					
8	lowering the cost of capital in Zambia					
9	lowering the cost of doing business in Zambia					

21. The principles of corporate governance should be viewed as not just being relevant to companies, but to many types of organizations be they companies, state enterprises, parastatals and public sector institutions including government itself.

Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**

22. To what extent do you agree with the following statements?

1 = Strongly Agree 2 = Agree 3 = Neutral 4 = Disagree 5 = Strongly Disagree

Corporate governance and accountability	**1**	**2**	**3**	**4**	**5**
corporate governance rests on accountability					
accountability and sound corporate governance practices underpin economic development					
accountability holds the promise of bringing the people to justice					
accountability can play a critical role in controlling abuse of political power in Zambia					
accountability can contribute to better governance in Zambia					

C. Corporate Governance and Development

23. How would you classify Zambia in terms of development?

Under-Developed	Between Under-Developed and Developing	Developing	Developed

24. Corporate governance has been identified by New Partnership for Africa's Development (NEPAD) as one of the conditions for development in Africa. To what extent do you understand the concept of corporate governance as a necessary condition for development in Zambia?

Strongly agree	Agree	Neutral	Disagree	Strongly disagree

25. To what extent do you agree with the following statements?

1 = Strongly Agree **2** = Agree **3** = Neutral **4** = Disagree **5** = Strongly Disagree

Statement	1	2	3	4	5
Zambia's economy depends on the drive and efficiency of its companies.					
Corporate governance is one key element in improving Zambia's economic efficiency and growth					
Corporate governance plays a critical role in attracting aid to Zambia					
Corporate Governance is an essential element in attracting FDI to Zambia					
Corporate governance is important in helping Zambia create wealth, jobs and long-term competitiveness in the global economy.					
Corporate governance plays an important role in creating investor confidence in Zambia					
Corporate governance plays a central role in helping Zambian firms access finance for their investment activities at a lower cost					
Sound corporate governance practices are fundamental to Zambia's economic recovery					

D. Accountability

26. To what extent do you think that corporate governance problems in Zambia are associated with a lack of accountability?

Strongly agree	Agree	Neutral	Disagree	Strongly disagree

27. Do you think a lack of accountability and corporate governance affect the flow of FDI to Zambia?

Strongly agree	Agree	Neutral	Disagree	Strongly disagree

28. Do you think a lack of accountability and corporate governance affect development aid flow to Zambia?

Strongly agree	Agree	Neutral	Disagree	Strongly disagree

29. Please feel free to add any comments that you think are relevant to corporate governance, accountability and development in the Zambian context.

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30. Are there any other comments that you would like to make?

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Thank you for responding to this questionnaire. If you wish to obtain a summary of the research results please write your e-mail address

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Appendix 6.3
Introductory Letter - Interviews

UNIVERSITY OF DUNDEE

School of Business

ACCOUNTING & FINANCE

31st March 2011

To Whom It May Concern:

Re: Mr Chanda Shikaputo

We are writing on behalf of Mr Chanda Shikaputo, a PhD student in the School of Business at the University of Dundee, Scotland, UK. As part of the research for his thesis on Corporate Governance and Development in Zambia, Mr Shikaputo is hoping to conduct interviews with various individuals to examine their views about the topic. We would therefore be extremely grateful if you would allow Mr Shikaputo to interview you for his work and help facilitate what we believe to be an important study in the area.

We can personally attest to Mr Shikaputo's professionalism and trustworthiness; if you require any further information please do not hesitate to contact us.

Dr. Bruce Burton,
Reader in Finance,
School of Business,
University of Dundee,
Dundee,
Scotland, UK.
E-mail: b.m.burton@dundee.ac.uk

Dr. Theresa Dunne,
Lecturer in Accounting,
School of Business,
University of Dundee,
Dundee,
Scotland, UK
E-mail: t.m.dunne@dundee.ac.uk

UNIVERSITY OF DUNDEE · College of Arts and Social Sciences · Dundee DD1 4HN Scotland UK
t +44 (0)1382 384193 f +44 (0)1382 388421

Appendix 6.4
Introductory Letter – Questionnaire Survey

UNIVERSITY OF DUNDEE

School of Business

ACCOUNTING & FINANCE

31st March 2011

To Whom It May Concern:

Re: Mr Chanda Shikaputo

We are writing on behalf of Mr Chanda Shikaputo, a PhD student in the School of Business at the University of Dundee, Scotland, UK. As part of the research for his thesis investigating Corporate Governance and Development in Zambia, Mr Shikaputo has prepared a questionnaire survey that examines views about the topic. We would therefore be extremely grateful if you would complete the questionnaire and help facilitate what we believe to be an important study in the area. The study is being conducted on an anonymous basis and none of the respondents will be identified.

We can personally attest to Mr Shikaputo's professionalism and trustworthiness; if you require any further information please do not hesitate to contact us.

Dr. Bruce Burton,
Reader in Finance,
School of Business,
University of Dundee,
Dundee,
Scotland, UK.
E-mail: b.m.burton@dundee.ac.uk

Dr. Theresa Dunne,
Lecturer in Accounting,
School of Business,
University of Dundee,
Dundee,
Scotland, UK
E-mail: t.m.dunne@dundee.ac.uk

UNIVERSITY OF DUNDEE · College of Arts and Social Sciences · Dundee DD1 4HN Scotland UK
t +44 (0)1382 384193 f +44 (0)1382 388421